| Conference Proceedings 11-05 |

NORTHEAST ASIA ECONOMIC FORUM

Financing for Regional Economic Integration for Northeast Asia III:

A Multilateral Financial Institution for Northeast Asia

Edited by
Lee-Jay Cho & Chang Jae Lee

Korea Institute for International Economic Policy

The Korea Institute for International Economic Policy (KIEP) was founded in 1990 as a government-funded economic research institute. It is a leading institute concerning the international economy and its relationship with Korea. KIEP advises the government on all major international economic policy issues and serves as a warehouse of information on Korea's international economic policies. Further, KIEP carries out research by request from outside institutions and organizations on all areas of the Korean and international economies by request.

KIEP possesses highly knowledgeable economic research staff. Now numbering over 168, our staff includes 52 research fellows with PhDs in economics from international graduate programs, supported by more than 66 researchers. Our efforts are augmented by our affiliates, the Korea Economic Institute of America (KEI) in Washington, D.C. and the KIEP Beijing office, which provide crucial and timely information on local economies. KIEP has been designated by the government as its Center for International Development Cooperation and the National APEC Study Center. KIEP also maintains a wide network of prominent local and international economists and business people who contribute their expertise on individual projects.

KIEP continually strives to increase its coverage and grasp of world economic events, and expanding cooperative relations has been an important part of these efforts. In addition to many joint projects in progress KIEP is aiming to become a part of a broad but close network of the world's leading research institutes. Considering the rapidly changing economic landscape of Asia, which is leading to further integration of the world's economies, we are confident that KIEP's win-win proposal for greater cooperation and sharing of resources and facilities will increasingly become standard practice in the field of economic research.

Wook Chae, *President*

Korea Institute for International Economic Policy
246 Yangjaedaero, Seocho-Gu, Seoul 137-747, Korea
Tel: 02) 3460-1251 / FAX: 02) 3460-1144,1199
URL: http//www.kiep.go.kr

Price USD 7

NORTHEAST ASIA ECONOMIC FORUM

| Conference Proceeding 11-05 |

Financing for Regional Economic Integration for Northeast Asia III:

A Multilateral Financial Institution for Northeast Asia

Edited by

Lee-Jay Cho & Chang Jae Lee

KIEP Korea Institute for International Economic Policy

KOREA INSTITUTE FOR
INTERNATIONAL ECONOMIC POLICY (KIEP)
246 Yangjaedaero, Seocho-Gu, Seoul 137-747, Korea
Tel: (822) 3460-1251 Fax: (822) 3460-1144
URL: http://www.kiep.go.kr

Wook Chae, *President*

Conference Proceedings 11-05
Published December 30, 2011 in Korea by KIEP
ISBN 978-89-322-3059-7 94320
978-89-322-3020-7 (Set)
Price USD 7
ⓒ 2011 KIEP

Contents

Preface 11

Contributors 13

Introduction and Overview 15

Chapter 1. Broad Issue of Economic Partnerships 19

Trans-Pacific Partnership: Priority Issue of the APEC 2011 Honolulu ... 21
Ippei Yamazawa
Big Brother in Pacific Cooperation Study 21
APEC 2011 Honolulu 22
APEC Achieves Free Trade by 2020 22
A Paradigm Shift in the Regional Integration 24
TPP toward FTAAP 26
APEC Pushes Up FTAAP 29

Prospects for a China-Japan-Korea FTA: Light at the End of the Tunnel 33
Chang Jae Lee
1. Introduction 33
2. Trends of Trade between China, Japan and Korea 33
3. Developments Related to the CJK FTA 40
4. Reasons Why a CJK FTA is Likely to be Realized in the Coming Years .. 42
5. Closing Remarks: Role of a CJK FTA in Asia Pacific Economic Integration 43

Chapter 2. Regional Financial Cooperation 47

The Establishment of the NEADB and the Countermeasure of Local Government: From Conception to Promotion 49
Gangzhe Li

1. Introduction ····· 49
2. Review of the World Development Finance System ····· 50
3. The Experiences of New Regional-level Development Banks ····· 52
4. Financial Cooperation in East Asia after the Asian Currency Crisis ····· 54
5. Proposal for New Financial Cooperation Framework ····· 60
6. Conclusion ····· 61

The Necessity and Feasibility for Establishing the Northeast Asian Bank for Cooperation and Development (NEABCD) ····· 65
Junlyu Ma, Zhang Jianping, and Liu Ming
1. The Necessity for Establishing the NEABCD ····· 65
2. The Feasibility for Establishing the NEABCD ····· 68
3. The Financing Requirements and Management of Cross-Border Projects in Northeast Asia ····· 70
4. Purpose, Character and Principle of Northeast Asia Bank for Cooperation and Development ····· 72

Review of Accounting Policies and Operating Methodologies for Existing Development Banks ····· 77
Wonkee Pae
1. Introduction ····· 77
2. Regional Development Banks by Each Area and External Auditors · 78
3. Functional Currency, Reporting Currency and Capitals ····· 78
4. Generally Accepted Accounting Principles (GAAP) ····· 79
5. Ordinary Capital Resource vs. Special Funds ····· 80
6. Risk Management ····· 81
7. Tax Exemption ····· 81
8. Conclusion ····· 82
Appendix: Illustration of Loan Policy and Borrowing Policy for Other Existing Development Banks ····· 83

Chapter 3. Financing Infrastructure Development in Northeast Asia 85

A Case for Financing Cross-Border Infrastructure: Russia and Mongolian Resources 87
Yamamoto Takashi
Issues in Financing Cross-Border Infrastructure Projects 87
A Solution: The Northeast Asian Bank for Cooperation and Development 89
Appendix 90

Towards an Integrated Regional Logistics System 97
Inoue Satoshi
1. Introduction 97
2. Globalization and Maritime Trade 97
3. Port Expansion, Containerization and Institutional Reform 98
4. Supply Chain Management and Port 99
5. Transforming Ports into Logistics Centers: 100
6. Developing the Regional Logistics System for Northeast Asia 100
7. PPP for Regional Logistics System 102
8. Conclusion 103

Korea - Financing Plans for the Development of Northeast Asia 105
Jai Min Lee
1. Introduction 105
2. Need for Development Financing in Northeast Asia 106
3. Financing Plans for the Development of Northeast Asia 110
4. Summary and Conclusion 121

Vision for Korea-Japan Economic Cooperation: The Construction of a Korea-Japan Undersea Tunnel 125
Jung Duk Lim
1. Introduction 126
2. Review on the Japanese-side Study 120
3. Major Discussion Points and a Basic Concept from Korean

Perspectives 127
4. Impact Estimate of the Tunnel 131
5. Policy Suggestions 133

Appendix **135**

Tables & Figures

Chapter 1. Broad Issue of Economic Partnerships

Trans-Pacific Partnership: Priority Issue of the APEC 2011 Honolulu

<Table>

Table 1 ····· 32

Prospects for a China-Japan-Korea FTA: Light at the End of the Tunnel

<Figure>

Figure 1. Shares of Intra-regional Trade ····· 35
Figure 2. Shares of Intra-regional Trade of China, Japan and Korea ····· 35
Figure 3. China's Major Trading Partners ····· 36
Figure 4. Japan's Major Trading Partners ····· 37
Figure 5. Korea's Major Trading Partners ····· 38
Figure 6. Share of Export of CJK by Production Process with Major Trading Partners ····· 39

<Annex Table>

Annex Table 1: Shares of Intra-regional Trade ····· 44
Annex Table 2. Shares of Intra-regional Trade of China, Japan and Korea ····· 45

Chapter 2. Regional Financial Cooperation

The Establishment of the NEADB and the Countermeasure of Local Government: From Conception to Promotion

<Figure>

Figure 1. The MDB System ····· 51

The Necessity and Feasibility for Establishing the Northeast Asian Bank for Cooperation and Development (NEABCD)

<Table>

Table 1. The Paid-up and Uncalled Capital Ratio of the Major Multilateral Institutions ····· 73

Review of Accounting Policies and Operating Methodologies for Existing Development Banks

<Table>

Table 1. Summary of Six Regional Development Banks ····· 77
Table 2. Functional Currency, Reporting Currency and Capitals ····· 78

Chapter 3. Financing Infrastructure Development in Northeast Asia

Korea - Financing Plans for the Development of Northeast Asia

<Table>

Table 1. P/F Projects Propelled in China and Russia ····· 113
Table 2. ODA Extended by South Korea and Japan in 2010 ····· 114
Table 3. Official Export Credit of Japan and South Korea ····· 115
Table 4. Trend of Credit Commitments by MDBs ····· 116
Table 5. Types of Development Financing by Project ····· 118

<Figure>

Figure 1. Basic Structure of Project Finance ····· 111

<Box>

Box 1. Project Structure Example for P/F in Northeast Asia ····· 112

Vision for Korea-Japan Economic Cooperation: The Construction of a Korea-Japan Undersea Tunnel

<Table>

Table 1. Overview of Three Routes ····· 127

Table 2. Suggested Route of JKTRI and BDI ····· 132

<Figure>
Figure 1. Three Alternative Routes ····· 126
Figure 2. Alternative Routes of Korea-Japan Tunnel ····· 128
Figure 3. Vertical Section of Optimal Route ····· 129

Preface

The Northeast Asian region is one of the most dynamic economic centers of the world, having China, Japan, and Korea as major players, with productive linkages to resource-rich Russia and Mongolia, and to the Pacific and North America. During most of the twentieth century, this region suffered from the political environment of military conflicts, tension, and territorial rivalries among the major powers: China, Japan, Russia, and the United States. In contrast to the region's robust economic growth, regional security has long been fragile, mainly due to the geopolitical conditions resulting from the Cold War era. In the twenty-first century, if the countries in Northeast Asia wish to further their development and prosperity, they will have to learn to harness their dynamic economies and create a region in which peaceful coexistence and common prosperity prevail. This is a challenge for the Northeast Asian countries, and initiating specific functional and economic cooperation is one concrete and constructive approach, if not the only way, toward meeting this challenge.

Northeast Asia is one region of the world where a formal regional institutional mechanism such as the European Union or ASEAN has yet to evolve. Nevertheless, the Northeast Asian countries should continue to promote region-wide cooperative projects. The Korea Institute for International Economic Policy (KIEP) and the Northeast Asia Economic Forum (NEAEF) have been collaborating on the effort toward achieving closer economic and financial cooperation in the region, and this volume presents the results of the project implemented in 2011 for this effort aimed at supporting regional institutional arrangements for financing cross border infrastructure developments and economic integration.

North Korea, Mongolia, the Russian Far East, and the northeastern provinces of China constitute a northern sub-region that is well-endowed with latent natural and human resources. This sub-region has the potential of becoming a valuable source of natural resources for the entire region, and what is needed is to realize that potential through cross border infrastructure development. Energy security and efficiency, the environment,

and green growth, for example, constitute an important area of cooperation, as the three major countries of China, Japan and Korea are heavily dependent on energy imports and are highly vulnerable to energy crises. Financing requirements for the necessary cross-border infrastructure are likely to be large, and a regional financial institution is a key to meeting that financing need.

This volume, which is the third in the series of volumes entitled, *Financing for Regional Economic Integration for Northeast Asia*, comprises papers, research reports, and summaries of a main conference and several specialized meetings, as well as affiliated activities, that took place under this project. The results of this project represent activities contributing to the regional economic integration and have been carried out in a spirit of cooperation.

KIEP extends its appreciation to Dr. Lee-Jay Cho, Chairman of the Northeast Asia Economic Forum, for his leadership in implementing the project and to the authors of the papers and discussants who contributed to this volume.

Dr. Lee-Jay Cho and Chang Jae Lee would like to extend their appreciation to Dr. Byungwon Bahk, Prof. Junlu Ma, Prof. Takashi Yamamoto, and Dr. Ming Liu for their effort in planning and coordinating the research and meetings as well as to the substance of the research undertaken. Thanks are also due to the staff of NEAEF for their assistance in the course of successful implementation of this project, and to Dr. Kennon Breazeale for his editorial review of this volume.

Wook Chae
President
Korea Institute for International Economic Policy

Contributors

Lee-Jay Cho, Chairman, Northeast Asia Economic Forum

Ippei Yamazawa, Professor Emeritus, Hitotsubashi University, Tokyo; Former President, International University of Japan

Chang Jae Lee, Senior Fellow of Korea Institute for International Economic Policy (KIEP), Korea and Former Chair, East Asia FTA Joint Expert Group

Gangzhe Li, Professor, Hokuriku University, Japan

Junlu Ma, Dean, School of Economics, Nankai University, China

Jianping Zhang, Senior Economist, Director, Department of International Regional Cooperation, Institute for International Economic Research, National Development and Reform Commission (NDRC), People's Republic of China

Ming Liu, Assistant Professor of Finance, Nankai University, China

Wonkee Pae, Professor, Hongik University, and Advisor, KPMG, Korea

Takashi Yamamoto, Professor, Takushoku University, Japan

Satoshi Inoue, Professor, National Graduate Institute for Policy Studies, Japan

Jai Min Lee, Former Vice President, Korea Exim Bank, Korea

Jung Duk Lim, Chairman, Institute for City and Economy and Former Professor, Pusan National University, Korea

Introduction and Overview

Lee-Jay Cho*

The Northeast Asia Economic Forum (NEAEF) is a regional nongovernmental organization created in 1991 to sponsor and facilitate research, networking, and dialogue relevant to the economic and social development of Northeast Asia. The Forum is also committed to promoting understanding and relations among the peoples of Northeast Asia, North America, and Europe.

The Northeast Asia Economic Forum (NEAEF) for the year 2011 in collaboration with KIEP implemented the project that focused on research aimed at regional economic and financial cooperation in terms of trade and cross-border energy and logistic infrastructure construction and capital mobilization and institutional development and in the context of a larger framework of trade and economic partnership in Asia and the Pacific. The 2011 cooperative project with the Korea Institute for International Economic Policy (KIEP) resulted in the publication of this volume of conference proceedings: *Financing for Regional Economic Integration for Northeast Asia III*. This volume contains the research outputs, the outlines and summaries of the meetings, which will contribute significantly to future discussions on economic integration and financial cooperation in Northeast Asia.

NEAEF as planned implemented conference and meeting activities in which experts presented their views and concrete proposals relevant to the research on trade and regional financial cooperation. In particular there was much discussion devoted to the establishment of a regional multilateral bank for cooperation and development. As way of background several topics were discussed that elaborated the features, context and environment that a multilateral bank for cooperation and development expected to confront. The dynamic changes associated with the global financial crisis and subsequent developments presented additional factors in addressing the issues of financial cooperation and economic integration in Northeast Asia.

* Chairman of the Northeast Asia Economic Forum.

The Forum's meetings were held as follows:

1. An expert meeting under the title "Financing for Regional Economic Integration in Northeast Asia: Cross-border Infrastructure, Resources, and Capital Mobilization" was held at Nihon University, Tokyo on May 11-12, 2011. The Agenda and the Summary and Conclusion are in the final report volume to be jointly published with KIEP.

2. The Northeast Asia Economic Forum, (NEAEF) in partnership with the University of Hawaii at Manoa, convened the 20th annual Northeast Asia Economic Forum Conference in Honolulu on 8-9 August 2011. Representatives from the People's Republic of China, Japan, the Republic of Korea, Mongolia, the Russian Federation, the European Union, and the United States met to take steps to encourage greater cooperation and integration among Northeast Asian nations. Honolulu located in the center of the Pacific with its Aloha spirit stands as a wonderful model for cultural diversity and ethnic harmony, and served as an excellent backdrop for discussing opportunities for partnership and cooperation amongst the Northeast Asian countries and North America.

The session on Trans-Pacific Trade and Economic Development Partnerships focused primarily on the opportunities for regional trade agreements to promote economic development in Northeast Asia. The upcoming APEC Honolulu meeting was a unique and unprecedented opportunity for Hawaii to host the opening of trade negotiations, including a Trans-Pacific Partnership (TPP) and its alignment with the ASEAN+3 and +6 countries. As a complementary effort, the China-Japan-Korea Free Trade Agreement (CJK FTA) was discussed, the given geographic proximity of the three countries and their common goal of pursuing economic integration in the Asia-Pacific region. Building on the history of bilateral commercial partnership and the recent wave of bilateral free trade agreement negotiations, the respective heads of state in China, Korea and Japan launched a Trilateral Joint Study Committee to investigate the prospect of the CJK-FTA.

The session on Financial Infrastructure Development in Northeast Asia emphasized the role of the Northeast Asian Bank for Cooperation and Development (NEABCD) to promote sustainable economic development in the region. Some of these projects include cross-border cooperation, natural resource exploration, most notably in the Russia Far East and Mongolia,

as well as developing integrated transportation and energy infrastructure in the region. It was noted that existing banks are not sufficient for financing the region's needs, rather, a NEABCD specific to the region is necessary to fund these cross-border projects, driven by sub-sovereign governments as well as complement existing multilateral development banks. Additionally, while intraregional projects have sufficient funding for the short-term, long-term financing is also vital for the region's future. The proposed NEABCD is expected to invest in concrete cross-border infrastructure projects, suggested during the session such as gas pipelines, transportation linkage like the Fukuoka - Busan submarine tunnel. The Tianjin municipal government has been taking significant steps to promote the bank and build consensus with relevant ministries in the Chinese central government.

The NEAEF will pursue a trilateral mechanism for the three countries for consultation government sides.

The 2011 project resulted in setting a wider framework of trade and economic partnership, FTA in Asia and the Pacific as well as East Asia, on one hand and clarifying the more specific and concrete steps toward the financial institutional development for regional economic integration in Northeast Asia, on the other. The initial set of outputs are in research and discussions that examined the FTA for China, Japan and Korea (CJK) and Trans Pacific Partnership Agreement (TPPA), and on issues of regional financial cooperation in the context of a regional physical integration through cross border resources and infrastructure developments. The second set of research results are related to the justification of the mission and structural architecture that was needed to actualize a proposed multilateral regional financial institution. Finally, In view of constraints in time frame there was a re-examination of the history, a revision of the roadmap and a specific set of strategies toward establishing a Northeast Asia Bank for Cooperation and Development.

The meeting activities under the leadership of NEAEF, continued to add to the substantial documentation and fundamental conceptual work contributed by financial experts and practitioners. More work was carried out with the very tangible assistance of development and export-import bank specialists from China, Japan and Korea. An earlier suggestion to expand the dialogue and consultation on bank development to Russia resulted in cross border resources developments studies involving Russia and Mongolia. Several of the presentation provided details on some new

dimensions for developing the NEABCD concept along with the advantages of establishing an NEABCD in developing infrastructure for the Northeast Asian region. It was recognized and reemphasized that a mechanism should be arranged for government agencies and research organization that are responsible for implementing efforts for financial cooperation. The purpose of this mechanism was to enable the parties to exchange information and ideas to formulate a cooperative framework and effort in the area of development finance for the Northeast Asia region and to provide research for financial institutions, both public and private.

We believe this project continued to provide important contributions by generating timely and necessary research and conference activities by sustaining concrete efforts in assessing the dynamic economic changes in Northeast Asia as well as wider Asia Pacific in order to promote regional economic cooperation and integration.

Chapter 1

Broad Issue of Economic Partnerships

Trans-Pacific Partnership: Priority Issue of the APEC 2011 Honolulu

Ippei Yamazawa

Big Brother in Pacific Cooperation Study

To begin with, let me say a few words about Dr. Seiji Naya. I have known him for almost fifty years. I met him for the first time in 1962 when he visited Hitotsubashi University in Tokyo for his doctoral dissertation study. I was a Master student then and he advised me in writing application for American universities.

In the early 1970s, on the way back from Australia, I stopped over Singapore and Bankok for the first time and visited Seiji at Thammasat University. He introduced me to his Thai colleagues, which led me to teaching at Thammasat in 1976-77. These provided me with an important personal network all through Southeast Asia. He moved to Asian Development Bank as the first chief economist and established its economic research division. I frequently communicated with him at various conferences and research activities.

Then he came back to Hawaii and set up Economic Growth Study at East West Center and tried hard to establish Hawaii as the gateway of the United States to Asia. He invited me to stay at East West Center in successive Summer and helped me to publish my first English book from University of Hawaii Press.

I had two mentors in the Pacific cooperation study, Professor Kiyoshi Kojima and Dr. Saburo Okita, Both have passed away but were founding members of Pacific Trade and Development Conference (PAFTAD) and Pacific Economic Cooperation Conference (PECC), predecessors of APEC. I have followed them closely, while Seiji Naya helped me like a big brother in this course.

APEC 2011 Honolulu

President Barack Obama hosts APEC Leaders' meeting in Honolulu in November. It will highlight this year's APEC activities under the U.S. initiative. His priority is, of course, to complete the Trans-Pacific Partnership negotiation of the nine APEC economies and report to other APEC leaders that the TPP will guide APEC to be graded up eventually to FTAAP, FTA of the Asia Pacific area.

I am sorry for this series of acronyms, APEC, TPP, and FTAAP. Some of you may get embarrassed at them, but they are the key words of our efforts in establishing the free and open trade and investment in the Pacific. In November President Obama will declare that the United States is a Pacific country and that the United States will take a strong leadership in achieving the Pacific economic community.. Honolulu is selected as the host city for such Pacific event. Some of you may remember that the United States hosted APEC for the first time in Seattle in 1993 and initiated its Leaders' meeting. Its highlight was "free and open trade in the region." The United States plans to complete her long term efforts in November.

APEC Achieves Free Trade by 2020

In 1989, APEC started as a series of meetings by foreign and trade ministers from twelve economies on economic cooperation matters in the Asia Pacific region. The United States were its founding members together with Japan and Australia.

Trade and investment liberalization and facilitation (TILF) has become one of APEC's major tasks since the first Economic Leaders Meeting in Seattle in 1993, where leaders jointly declared that they would "achieve free and open trade in Asia and Pacific." In 1994 President Suhart of Indonesia hosted the second Leaders meeting in Bogor and delivered the ambitious Bogor Declaration, "….to complete the achievement of our goal of free and open trade and investment in the Asia-Pacific no later than the year 2020, …..with the industrialized economies achieving the goal of free and open trade and investment no later than the year 2010 and developing economies no later than the year 2020" (APEC Leaders, Declaration 1994). In 1995, Japan hosted the Osaka APEC and adopted the Osaka Action Agenda (OAA) which provided concrete measures that could

be taken to achieve the Bogor Goals. The Manila APEC in 1996 adopted the Manila Action Plan for APEC, MAPA) and their implementation started in 1997.

The annual APEC gathering of prime ministers and presidents of major economies with bold declarations attracted the media's attention. Expectations for APEC became heightened and participating economies increased up to 21 in 1998, covering all major economies surrounding the Pacific Ocean.

The annual APEC gathering of prime ministers and presidents of major economies with bold declarations attracted the media's attention. Expectations for APEC became heightened and participating economies increased up to 21 in 1998, covering all major economies surrounding the Pacific Ocean.

APEC has pursued its liberalization and facilitation measures toward the Bogor Goal within the IAP/CAP framework. Its concrete design, the Osaka Action Agenda (OAA), had a comprehensive coverage of 14 areas of trade and investment liberalization and facilitation (see Table 1), and described measures to be implemented for each area. Facilitation measures aimed to reduce the cost of doing business by enhancing the transparency and certainty of rules, legislation and standards and harmonizing them between participating economies, which are equally important to liberalization in order to enhance trade and investment in the region.

The IAP formula reflected APEC's unique modality of implementing liberalization and facilitation, that of "concerted unilateral liberalization" (CUL). Under this scheme, individual economies unilaterally announced their own liberalization and facilitation programs and implemented them in accordance with their domestic rules. However, individual economies closely watched each other's liberalization program and implementation and were obliged to submit liberalization programs as broad-ranging as their neighbors and were encouraged to implement in line with their commitments. SOM has conducted a peer review process of individual IAPs at its special sessions since 2002. APEC relied upon peer pressure to urge all economies to join in the liberalization efforts.

Individual economy governments have continued to revise their IAPs every year. The reporting has been made more elaborate and transparency improved in response to a common format. The number of liberalization measures increased as their Uruguay Round (UR) commitments were implemented. Voluntary liberalization was also added either in the form

of accelerated implementation of the URA or reduction of applied tariffs from their UR rates in several economies. The CAP helped individual economies to introduce common practices such as the Summary Tables of Tariffs and NTMs. The CAP was especially effective in introducing new legislations of facilitation consistent with the APEC system prescribed in the OAA. By and large, the IAP process encouraged individual economy governments to implement liberalization and facilitation measures toward the Bogor Goal. One short-coming accompanying such implementation was its "positive list formula" in which the IAP reported only the impediments to be liberalized but not those still remaining. Thus the IAPs increased the volume but did not provide a comprehensive list of existing impediments.

A Paradigm Shift in the Regional integration

However, APEC encountered a big setback during the Asian financial crisis when several ASEAN members and Republic of Korea (ROK) were severely hit, with their currencies depreciated substantially, and some suffered from negative growth. The EVSL (Early Voluntary Sector Liberalization), a breakthrough attempt of liberalization in the "easy sectors" also failed. As such, the IAPs implemented since 1997 brought about much less liberalization than had been expected. Although it included the liberalization committed in the Uruguay Round Agreement (URA), its unilateral liberalization beyond the URA to be applied to other APEC members and nonmembers alike has been limited in terms of its coverage and depth. The URA liberalization was implemented on schedule as committed, but further liberalization in sensitive sectors tended to be suspended.

On the other hand, APEC itself has shifted to a more realistic line for the past decade. Its gravity has shifted from liberalization to trade facilitation, capacity building, and structural reforms. The business environment has also changed in the Asia Pacific under an environment of accelerated globalization and prevailing regionalism of bilateral and sub-regional preferential trading arrangements. The Busan Roadmap was announced to include these realistic measures in 2005.

While APEC suffered a set-back at the Asian currency crisis, East Asian regional cooperation has enhanced since 1997-98. Most evident is the

Chiang Mai Initiative (CMI), a package of currency and financial measures preventing the recurrence of the currency crisis, which includes currency swap agreement at the emergency, Asian Bond market, and early warning system. During the rapid growth period of East Asian miracle before the crisis, East Asian governments pegged their currency with the US dollar individually and promoted capital liberalization thanks to the stable currency value. They simply did not need such a cooperation before the crisis. CMI was agreed upon by 10 ASEAN members and China, Japan and ROK, so-called ASEAN plus Three (APT) group at the Asian currency crisis.

On the other hand, institutional integration has proceeded in this region. Bilateral FTAs have been concluded both within the region and with outside partners; Japan-Singapore, Singapore-Australia, Thailand-India, Thailand-Australia, Singpore-ROK, Japan-Malysia, Japan-Thailand, Japan-Philippines, and Japan-Indonesia. Furthermore, China, Japan, and ROK have concluded FTAs/EPAs with ASEAN as a whole, so-called ASEAN-plus-1 type. However, APT has attracted attention as a core institution in the region. Its joint statement was announced at the APT Summit meeting in 2001 and the East Asian Community idea was proposed by the East Asian Vision Group (EAVG) set under the APT Summit (EAVG 2001).

ASEAN has taken an initiative in the East Asian cooperation. While started with five countries (Indonesia, Malaysia, Philippines, Thailand and Singapore) in 1967, it had made a few achievements in political and diplomatic negotiation with outside partners but not much in economic areas such as Preferential Trading Agreement (PTA) and Common Industrial Projects. In 1992 ASEAN started to implement a large scale tariff reduction, AFTA, toward an effective regional integration. It has taken an initiative of the APT implementing the Chiang Mai Initiative and formed a co-centric circle of cooperation, such as ASEAN+1 and ASEAN+3, around ASEAN as a core and on the driver's seat. (See Figure 1)

Here ASEAN has taken advantage of its unique formula of ASEAN Post Ministerial Conference (ASEAN PMC). While ASEAN organized its economic and trade ministers meeting every year, it has started since the late 1980s to invite counterpart ministers of such partner countries and Japan, China, ROK, and Australia and to negotiate as a group with individual partners, that is ASEAN+1 type formula. ASEAN extended this formula to summit meetings so that it could easily organized APT Summit and ASEAN+1 Summits taking advantage of the presence of leaders of

partner countries. This is a big success of ASEAN diplomacy. China, Japan, and ROK have all accepted this ASEAN initiative.

While hosting ASEAN Summit in 2005, Malaysia organized the first East Asia Summit (EAS) by inviting additional three countries, Australia, New Zealand and India and discussed a broader regional cooperation on such issues as anti-terrorism, recovery from natural disaster, preventing pandemic, environmental protection, energy cooperation. APEC is referred to as an outer circle organization for cooperation but not assigned a major role for East Asian cooperation. It cannot be denied that there underlies in this paradigm shift the preference of China and Malaysia against the US influence.

Although sitting on the driver's seat of APT and EAS, ASEAN perceives well the fact that ASEAN is its weakest member and has moved to strengthen its economy. At the ASEAN Summit in December 2007. It adopted the ASEAN Charter and all ten leaders signed it. The charter has institutionalized ASEAN as an international organization and announced its plan to build Economic Community, Political and Security Community, and Social and Cultural Community by 2015. The Blue Print for Economic Community details concrete measures to be implemented every other years toward 2015. It reflects an increased momentum among advanced ASEAN members toward further institutionalization but some concerns are heard about the blue print will not be implemented on schedule. Nevertheless, individual members completed their ratification and the charter effected at the ASEAN Summit in Bangkok in March 2009.

TPP toward FTAAP

The liberalization move has revived among advanced economies. In 2006 APEC Business Advisory Council (ABAC) proposed a greater FTA covering the whole APEC economies (ABAC 2006). It aimed at promoting the integration and conglomeration of all FTAs mushroomed in the APEC region for the past decade and thus creating a greater single market achieving the maximum scale economy. In spite of prudent attitude by Asian side, it was adopted as a long-term agenda of APEC in 2007 (APEC/LM 2007).

On the other hand, the Trans Pacific Partnership (TPP) has emerged as a binding FTA among a selected economy group of APEC. TPP was

originally formed by four APEC economies of Brunei, Chile, New Zealand, and Singapore in 2006. It aims to "establish a Trans-Pacific Strategic Economic Partnership (TPSEP) among the parties, based on common interest and deepening of the relationship in all areas of application." It has taken a "WTO plus," covering not only commodity and services trade but also such facilitation areas as rules of origin, customs procedures, trade remedies, technical barriers to trade, competition policy, intellectual property, government procurement, and dispute settlement (TPP 2006).

The evolution of TTP originated in the late 1990s, when some APEC economies got disappointed by the installed move for liberalization within APEC. The like-minded economies of Australia, New Zealand, the United States, Singapore, and Chile started the P5 talks on the occasion of APEC meetings in order to find a path toward further liberalization. While the US and Australia came out, the remaining P3 conducted four round negotiations in 2002-2005 and announced their agreement on TPSEP agreement at the APEC/MRT in 2005. Brunei joined at the last minute to form the P4 (Elms 2010). In late 2008 the United States expressed her interest in participating in TPP and started a negotiation for the expansion together with Australia, Peru and Vietnam in March 2010.

The United States has had a close economic relationship with East Asia as a nation in the Asia Pacific region for past decades. Japan, ROK, Chinese Taipei, Hong Kong, and ASEAN members used to earn a main part of foreign exchange from exporting to the big US market individually at their take-off stages of industrialization, after the World War Two, and China and Vietnam have followed suit for the past two decades. East Asia has become a major market of American products and services as well as a major important investment destination. On the other hand the US had established security alliance with several Asian countries during the cold war and has maintained its importance in her global strategy.

Thus the United States is concerned about her economic interest being impeded by any move in East Asia. Since the 1960s American businessmen and economists have participated in Pacific economic cooperation activities. When Malaysian PM Mahatir proposed an East Asian Economic Group in 1990, US State Secretary Baker objected to it fiercely and got it aborted. Although the severe objection like this has not been expressed recently, the US is still watching intensely the move in East Asia. Especially the US business sector have kept watching closely East Asia.

The United States has traditionally believed in the market economy

and promoted the liberalization in trade and investment. Partly because of her propensity of excessive consumption at home, she has accumulated a huge trade deficits for the past thirty years, especially with emerging economies in East Asia. Thus the strong demand for market opening and export expansion to East Asia has become a high priority in her trade policy agenda. The United States proposed for APEC to achieve a "free and open trade in the region" in the first Leaders' Declaration when hosting APEC in 1993. President Obama stressed the expansion of American export to East Asia as a major policy tool of increasing employment at home (USTR 2011).

How do other Asian economies respond to the TPP negotiation? Prime Minister Kan proposed for Japan to join the TPP as a symbol of the "third country opening," as Japan's economy and society have matured, it has become inward-looking. Japan should join the TPP in order to arrest this process and promote active advancement overseas. Japanese firms cannot survive global competition only at domestic market with aged population and less children together with resulting weakened dynamism. They have to move out to neighbor growing markets in Asia. It is imperative to produce a seamless business environment in which both Japanese and other Asian firms can do free and stable business. This leads to the East Asian Community idea. Although it is supported by business community but has provoked a strong objection by farmers. Partly because of his weak political leadership and partly because East Japan was hit by Great Earthquake and Tsunami on March 11th, Japan's participation in the TPP negotiation is receded for the moment. On the other hand, ROK has succeeded in forming the open trade stance and concluded FTAs with the United States and European Union. She will join TPP in near future.

There still remain cautious attitude against TPP in Asia. Other ASEAN members, Indonesia, Philippines and Thailand, do not express their interest in the TPP negotiation. Although they have achieved the AFTA liberalization and are tackling the 2015 target for the ASEAN Economic Community. China has fulfilled the liberalization required at its accession to WTO in 2001, which have paved the way to the globalization of Chinese economy and firms for the past decade. However, there still remain in her economic regime various forms of governmental regulations and Chinese government is cautious about their hasty deregulation. China is afraid of conceding to the NAFTA modality such as labor standards and human rights in the TPP negotiation. Furthermore, China stands against the United

States in security. China feels excluded from the TPP and prefers the liberalization in East Asia along ASEAN+3.

To conclude, the TPP negotiation has a trade-off of the high level FTA and greater scale merit of including China and other ASEAN. If it continues with the NAFTA modality under the US initiative, it will be a trans-Pacific but divide Asia. Of course, the U.S. contends that she never excludes China but expects that China will achieve further liberalization in future and join the TPP (Petri 2010 and USTR 2011). We wish the current promoters of TPP will have a clever mind of balancing the trade-off. In this regard Japan should join the TPP negotiation at an early stage and guide it in that direction.

APEC Pushes Up FTAAP

For the past few years FTAAP has been 'translated from an aspiration to a more concrete vision„. The DDA negotiation has got halted for the past five years so that the Plan B is still relevant. Last year APEC Leaders declared "FTAAP should do more than achieve liberalization in its narrow sense; it should be comprehensive, high quality and incorporate and address next generation trade and investment issues." It should be pursued as a comprehensive FTA by developing and building on ongoing regional undertakings such as ASEAN+3, ASEAN+6, and TPP. To this end APEC will make an important meaningful contribution as an incubator of a FTAAP by providing leadership and intellectual input into the process (Pathway to FTAAP , APEC/LM 2010c).

TPP is currently negotiated among nine APEC economies. Although generated from the APEC process, it will be a binding agreement with high level FTA. The United States has taken an initiative in its discussion on its FTA components and plans to conclude it in time for the Honolulu APEC in October 2011. ASEAN+3 and +6 are being examined together by a task force of member governments' officials, following the suggestions of ASEAN+3 Summit and East Asian Summit. Chinese concept paper on East Asia FTA and Japanese concept paper on Comprehensive Economic Partnership for East Asia (CEPEA) are on the agenda.

TPP and ASEAN+3 and +6 will continue to be prepared in parallel for the time-being. But each conflicts with other. TPP excludes China, while ASEAN+3 and +6 exclude the United States, which will cause difficulty

in merging them in future. Here I would like to suggest to promote their least common multiple, APEC.

Throughout last year APEC senior officials undertook a detailed examination of individual economies' achievement in individual TILF areas, including own assessment by the 13 volunteered economies and the assessment report by Policy Support Unit, in addition to the three rounds of IAP peer reviews for the past decade and Mid-Term Stock-takes in 2005, and produced a SOM report (APEC/SOM 2010) at SOM1 to 3. While the final report tells us only the group assessment of the thirteen volunteered economies, individual senior officials, both the thirteen economies and the rest of APEC economies, have understood well how far they have achieved toward the Bogor Goals and how much still remain. The six sectors listed in the Leaders' assessment (APEC/SOM 2010b) suggest the direction of their further efforts. Their efforts and findings should be fully utilized for the second half of the Bogor process.

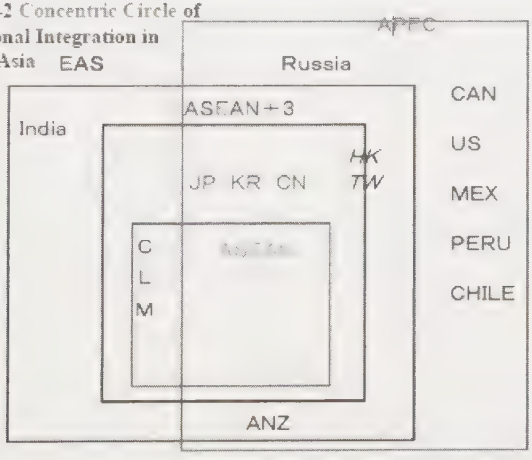
Leaders committed in Yokohama to continue the TILF process toward the final Bogor Goals in 2020. SOM2 last May in Montana adopted the new IAP peer review Process for all 21 members to remove remaining barriers toward 2020. APEC may keep its modality of non-binding nature and voluntarism but should strengthen their efforts of removing remaining barriers and at the same time more actively working toward addressing non-tariff or behind-the-border barriers and other next generation trade and investment issues to further deepen economic integration in the region. Effective economic cooperation should be provided so as to help APEC developing economies to improve their capacity for further TILF and meet new challenges. TPP, and ASEAN+3 and +6 pull the Asia Pacific from above, while APEC push it up from behind.

Table 1

Osaka Action Agenda
Tariffs
Non-Tariff Measures
Services
Investment
Standard and Conformance
Customs Procedure
Intellectual Property Right
Government Procurement
Business Mobility
Deregulation
Competition Policy
Rule of Origins
Dispute Settlement
Implementation of the Uruguay Round Agreements

Chart 1

Fig.7-2 Concentric Circle of Regional Integration in East Asia



References

APEC/LM. 1994. *APEC Economic Leaders' Declaration of Common Resolve.* Bogor, Indonesia.

_____. 2010a. 2010 Leaders' Declaration, The Yokohama Vision - Bogor and Beyond, p. 12. (November)

_____. 2010b. Leaders' Statement on 2010 Bogor Goals Assessment, p. 4. (November 27)

_____. 2010c Pathways to FTAAP, p. 3. (November)

APEC. 2010. Report on APEC's 2010 Economies Progress Towards the Bogor Goals, November 14, 2010 drafted by Japanese SO, 94p + Annex 8.

Elms, Deborah. 2010. Evolution of the Trans-Pacific Partnership (TPP) Talks, presented at the PECC Conference on "A Post 2010 Trade Agenda for the Asia-Pacific," July 6-7.

Petri, Peter. 2010. The TPP Needs Japan, posted on the PECC Blog. (November 15)

Trans-Pacific Strategic Economic Partnership: Agreement (TPP), by Brunei. Darussalam. 2004. Chile, New Zealand, and Singapore.

USTR. 2011. *2011 Trade Policy Agenda and 2010 Annual Report.* (March)

Prospects for a China-Japan-Korea FTA: Light at the End of the Tunnel

Chang Jae Lee

1. Introduction

Regionalism, which had begun in the 1950s in Europe, became a world-wide phenomenon in the 1990s. The three major Northeast Asian countries, namely, China, Japan and Korea; also joined in the regionalism trend by forming free trade agreements (FTAs) in the early 2000s. In addition, they have concluded many free trade agreements (FTAs) over the past ten years, though they have yet to form an FTA among themselves.

Despite their geographical proximity, historical legacies, different political and economic systems, as well as rivalry between China and Japan, have been cited as major impediments to the formation of an FTA among the Northeast Asian countries. So, a trilateral FTA among the three countries has long been regarded as a mid-term or long-term goal. However, recently, despite these obstacles, we began to witness new developments that seem to show the possibilities of a China-Japan-Korea FTA (CJK FTA).

Under these circumstances, after analyzing the trends of intra-regional trade among China, Japan and Korea, and examining new developments related to the CJK FTA, this paper will highlight the key reasons why a CJK FTA is likely to be realized in the coming years.

2. Trends of Trade between China, Japan and Korea

Trade among the three Northeast Asian countries has grown rather rapidly in the past twenty years. As shown in Figure 1, the share of intra-regional trade between China, Japan and Korea continued to increase from 12.3 percent in 1990 to 24.1 percent in 2004 except during the Asian

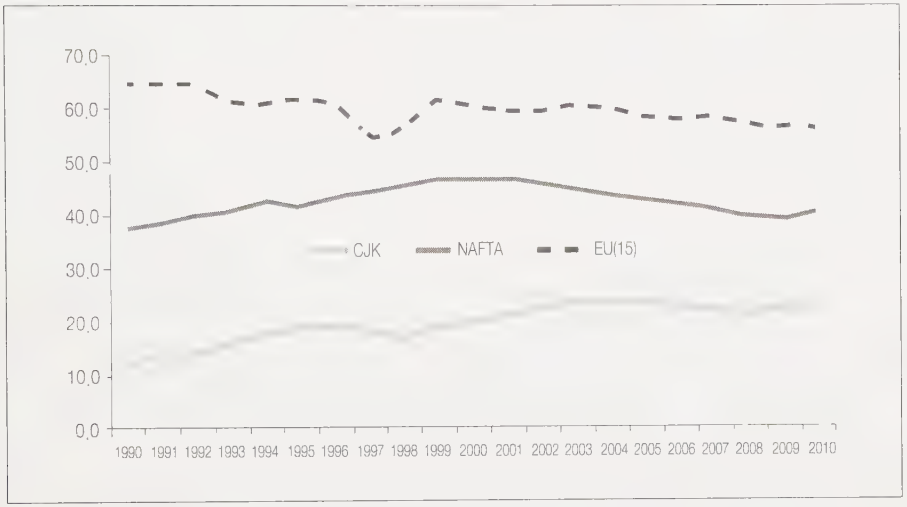
Financial Crisis of 1997-8. Then, it diminished to 21.5 percent before rising to 22.5 percent in 2010. During the same period, the shares of intra-regional trade of NAFTA and EU-15 varied from 37.2 percent to 40.5 percent, and from 64.5 percent and 56.3 percent, respectively. Thus, compared to NAFTA and EU, the share of intra-regional trade among the three Northeast Asian countries increased markedly for 1990-2010. Nevertheless, it is still much lower than those of EU and NAFTA in 2010.

Japan's dependency on intra-regional trade, i.e., on China and Korea, soared from 9.1 percent in 1990 to 26.9 percent in 2010, while Korea's dependency rose from 21.9 percent to 34.5 percent over the same period. As shown in Figure 2, however, China's trade trend differed markedly from its two neighbors. China's intra-regional trade dependency jumped from 15.0 percent in 1990 to 27.6 percent in 1996, but it began to decrease until dropping eventually to 16.9 percent in 2010. Thus, the recent decrease of the share of intra-regional trade among the three Northeast Asian countries could be explained mostly by the weakening of China's dependency on intra-regional trade.

As shown in Figure 3, China's intra-regional export dependency rose from 15.4 percent in 1990 to 25.4 percent in 1996 before diminishing to 12.0 percent in 2010, while its export dependence vis-à-vis the United States and EU increased from 8.5 percent to 17.9 percent and from 10.0 percent to 17.4 percent, respectively, during the same period. However, in 2010, China's intra-regional import dependency (22.5 percent) was much greater than its import dependency on the United States (7.3 percent) and EU (11.4 percent).

Figure 1. Shares of Intra-regional Trade

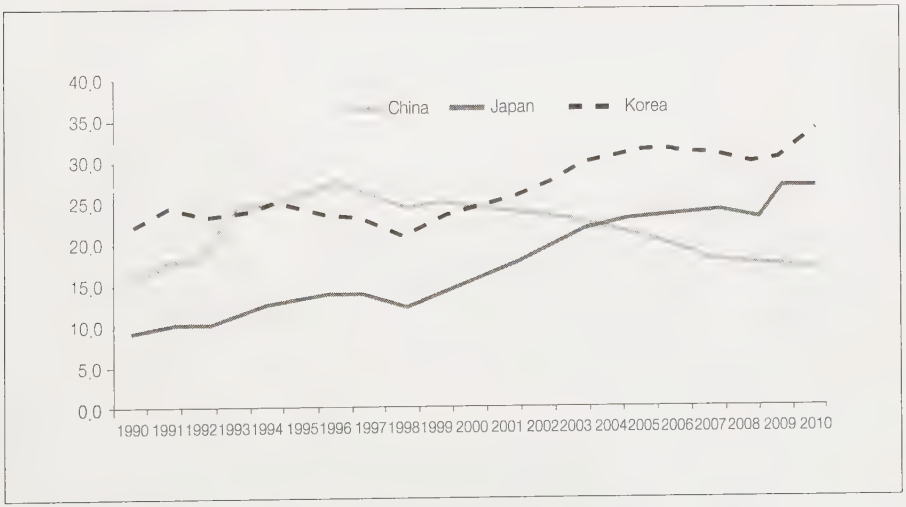
(Unit: %)



Source: Annex Table 1.

Figure 2. Shares of Intra-regional Trade of China, Japan and Korea

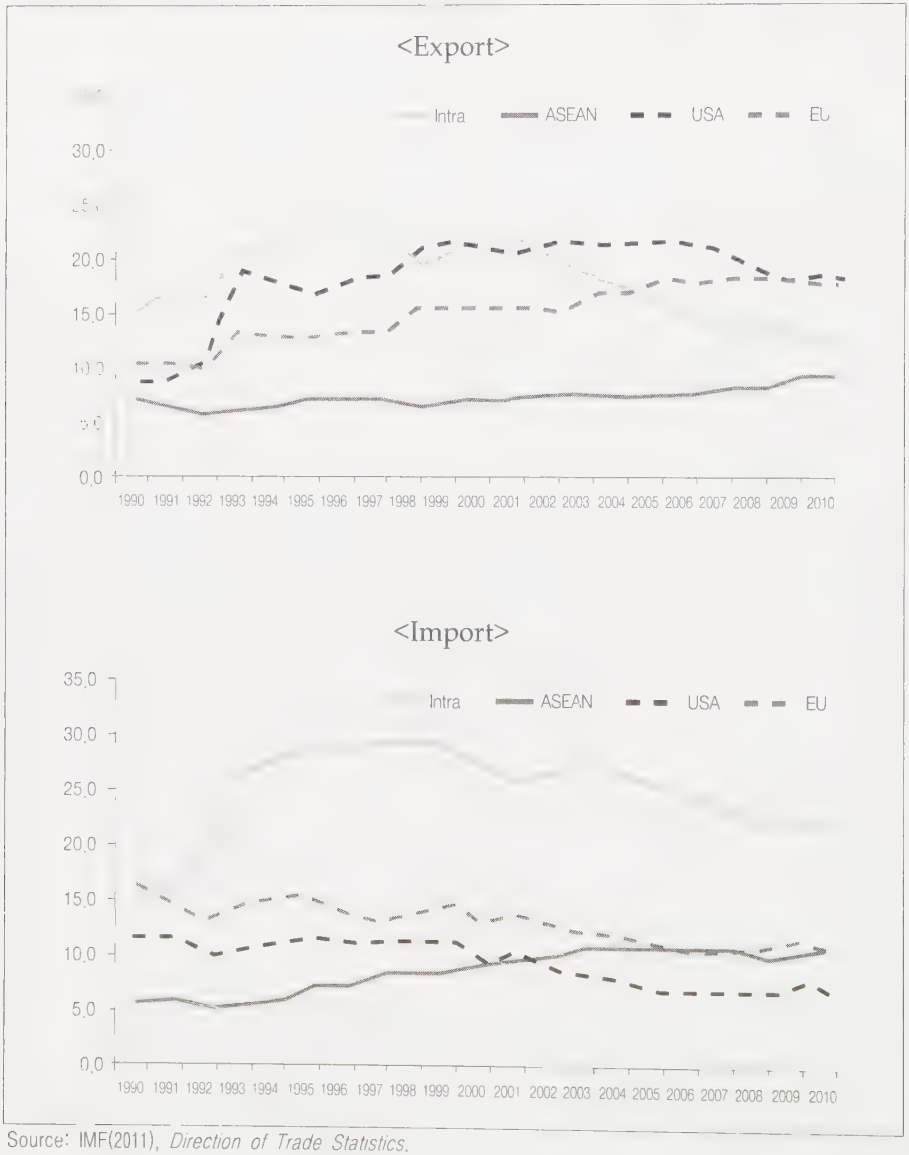
(Unit: %)



Source: Annex Table 2.

Figure 3. China's Major Trading Partners

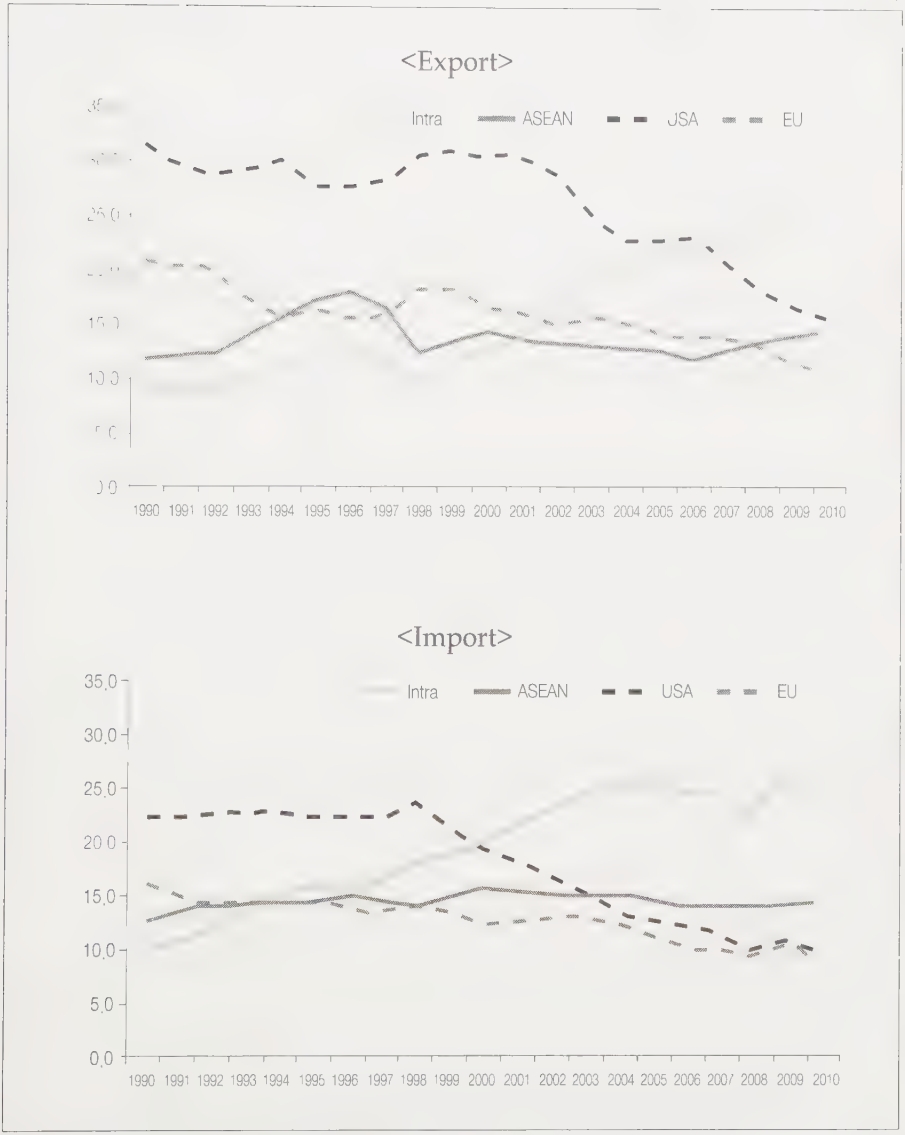
(Unit: %)



Source: IMF(2011), *Direction of Trade Statistics*.

Figure 4. Japan's Major Trading Partners

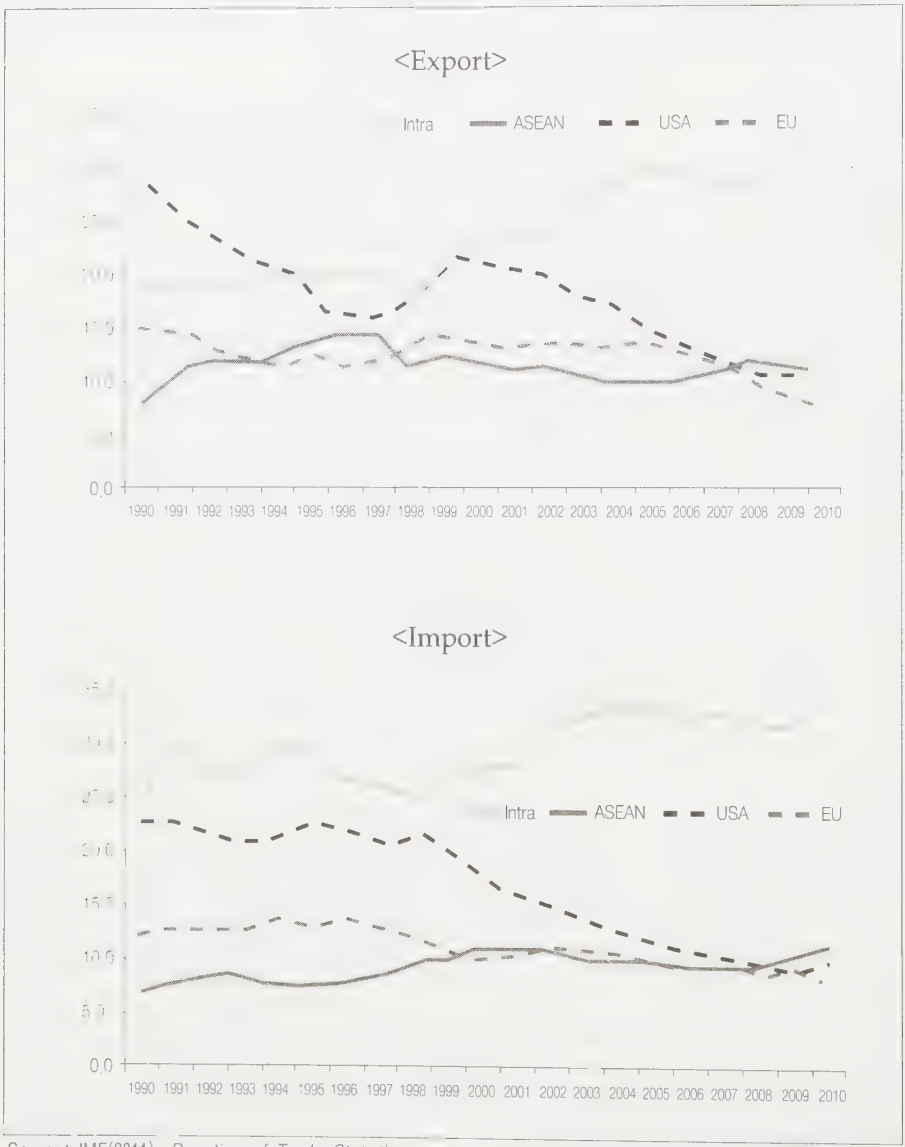
(Unit: %)



Source: IMF(2011), *Direction of Trade Statistics*.

Figure 5. Korea's Major Trading Partners

(Unit: %)



Source: IMF(2011), *Direction of Trade Statistics.*

Both Japan's intra-regional export and import dependencies increased significantly over the past twenty years. For 1990-2010, Japan's intra-regional export dependency soared from 8.2 percent to 27.5 percent, while its intra-regional import dependency also rose from 10.1 percent to 26.2 percent. During the same period, its export dependency vis-à-vis the United States and EU declined from 31.5 percent to 15.6 percent and from 20.4 percent to 10.3 percent, respectively; while its import dependency vis-à-vis the United States and EU went from 22.5 percent to 9.9 percent and from 16.1 percent to 9.2 percent, respectively (see Figure 4).

Among the three countries, Korea's intra-regional export and import dependency levels were the highest. For 1990-2010, Korea's intra-regional export dependency jumped from 18.6 percent to 34.3 percent, while its intra-regional import dependency increased from 25.0 percent to 34.7 percent. During the same period, its export dependency vis-à-vis the United States and EU decreased from 28.6 percent to 10.4 percent and from 14.8

Figure 6. Share of Export of CJK by Production Process with Major Trading Partners

(Unit: %)

Region	Goods	China		Japan		Korea		CJK	
		2000	2009	2000	2009	2000	2009	2000	2009
Intra	Intermediate	32.3	42.0	71.5	73.0	74.0	71.2	58.4	61.1
	Capital	11.0	21.4	24.0	17.0	11.4	22.7	16.2	20.1
	Consumption	48.8	33.3	3.4	6.6	13.9	5.2	22.0	16.0
ASEAN	Intermediate	53.4	51.3	71.2	73.3	80.0	72.3	69.9	62.6
	Capital	17.9	30.3	23.1	20.5	13.1	22.1	20.3	25.5
	Consumption	21.6	17.2	5.5	5.7	6.4	5.1	8.4	11.1
EU	Intermediate	31.2	30.6	44.9	52.2	41.3	38.1	40.5	35.8
	Capital	25.7	32.3	31.4	22.2	34.6	49.5	30.4	32.1
	Consumption	41.1	36.4	23.5	25.4	23.9	12.2	28.4	31.5
USA	Intermediate	23.9	25.8	43.1	46.5	45.0	41.7	39.0	32.9
	Capital	20.3	33.5	24.3	17.8	26.4	35.8	23.8	29.7
	Consumption	54.3	40.3	32.5	35.5	28.4	22.4	36.8	37.1

Source: UNCTAD, *UNCOMTRADE Database* [online].

percent to 7.5 percent, respectively; while its import dependency vis-à-vis the United States and EU went from 22.8 percent to 10.3 percent and from 12.2 percent to 8.3 percent, respectively (see Figure 5).

As shown in Figure 6, China, Japan and Korea traded mostly intermediate goods amongst themselves. In 2009, intermediate goods represented 61.1 percent of intra-regional trade among the three countries.

3. Developments Related to the CJK FTA

It was at the turn of the century that Japan became the first Northeast Asian country that concluded an FTA. Then, Korea and China also jumped on the FTA bandwagon, and all three countries concluded many bilateral and plurilateral FTAs within a relatively short period of time.

Japan signed economic partnership agreements (EPAs) with Singapore, Mexico, Brunei, Indonesia, Malaysia, the Philippines, Thailand, Vietnam, ASEAN, Chile, Switzerland, Peru and India. Korea concluded FTAs with Chile, Singapore, the EFTA, ASEAN, the United States, the European Union (EU), India and Peru. China signed a Closer Economic Partnership Arrangement (CEPA) with both Hong Kong and Macao, and an FTA with Chile, Pakistan, ASEAN, New Zealand, Singapore, Peru and Costa Rica.

There are also many ongoing FTA negotiations. Korea is engaged in FTA negotiations with Canada, Mexico, the GCC (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the UAE), Australia, New Zealand, Columbia and Turkey. Japan is in the midst of FTA negotiations with Australia and the GCC, while China is currently negotiating FTAs with Australia, the GCC, Iceland, Norway and SACU (Southern African Customs Union). In addition, there are many FTAs under consideration or in preparation involving China, Japan, or Korea.

Despite the fact that the three countries have pursued active FTA policies, there is no FTA among Northeast Asian countries. In fact, Korea-Japan FTA negotiations started in December 2003 and have been stalled since November 2004. Currently only Director-General-Level Consultations on a Korea-Japan FTA are under way. As for the Korea-China FTA, the official tripartite joint study on a Korea-China FTA, which started in March 2007, was concluded in May 2010. FTA negotiations have yet to begin. In addition, negotiations on Investment Agreement between China, Japan, and Korea have been under way since March 2007.

The very first mechanism related to Northeast Asian institutional economic integration was created in November 1999. The leaders of China, Japan and Korea got together for the first time in Manila during the ASEAN+3 (China, Japan and Korea) Summit Meeting, and Trilateral Summit Meetings took place regularly within the framework of ASEAN+3. At the first meeting, the leaders of the three countries agreed on launching a joint study to enhance economic cooperation among the three countries.

Based on this agreement, the Development Research Center (DRC) of China, the National Institute for Research Advancement (NIRA)[1] of Japan, and the Korea Institute for International Economic Policy (KIEP) began a joint research project in November 2000. The above three institutions have conducted a series of joint research work on a China-Japan-Korea FTA from 2003 to 2009. Each year, the three institutions presented policy recommendations based on their joint research to the leaders of the three countries during the trilateral summit meeting. In 2009, the Trilateral Joint Research recommended upgrading the joint research on the CJK FTA by commencing discussions among government officials of the three countries.

In December 2008, a cornerstone for institutional economic integration seemed to be laid when the first independent Trilateral Summit Meeting between the leaders of China, Japan and Korea was held in Fukuoka, Japan. Unlike the abovementioned previous trilateral summit meetings, this Trilateral Summit Meeting is organized independently of the ASEAN+3 framework in Northeast Asia. In fact, the Second and Third Trilateral Summit Meetings took place in Beijing in 2009 and Jeju in 2010, respectively, while the Fourth Trilateral Summit was held in Tokyo in May 2011. The meetings are expected to provide the first real opportunity for the discussion of regional issues in Northeast Asia among the leaders of three key countries.

Based on the recommendation of the Trilateral Joint Research, the leaders of China, Japan and Korea agreed to launch an Official Tripartite Joint Study for a CJK FTA at the Trilateral Summit Meeting in Beijing, in October 2009. Accordingly, the first Joint Study Committee for a CJK FTA took place in Seoul in May 2010, and the Joint Study will be concluded at the last meeting, which will be held in Korea in December 2011. The outcome of the Joint Study is scheduled to be submitted at the Fifth

1) Since 2009, the Institute of Developing Economies (IDE-JETRO) is the representative institution for Japan.

Trilateral Summit Meeting, which will take place in China in 2012.

4. Reasons Why a CJK FTA is Likely to be Realized in the Coming Years

First, China, Japan and Korea are neighboring countries. Since an FTA is the most basic type of regional trade agreement (RTA), it seems only natural to form an FTA among neighboring countries, all of which have pursued relatively active FTA policies

Second, as mentioned above, China, Japan and Korea are major trading partners for each other. In fact, the trade dependency of all three countries on intra-regional trade was very high. For instance, in 2010, figures for intra-regional import dependency were 22.5 percent for China, 26.2 percent for Japan and 34.7 percent for Korea.

Third, FTA has become a world-wide phenomenon. Although China, Japan and Korea have concluded many FTAs over the past ten years, respectively, there is no FTA among them.

Fourth, considering the economic difficulties of the EU and the US in the wake of the global financial crisis, China, Japan and Korea cannot continue to depend heavily on those markets, especially for final goods. A large regional market is needed

Fifth, given the proliferation of bilateral and plurilateral FTAs among East Asian countries, a region-wide FTA is necessary. In order to achieve a region-wide FTA in East Asia, an FTA(s) regardless of type, including a CJK FTA, should be formed among the three countries.

Sixth, Japan's dependency on intra-regional trade has increased substantially. Among the three countries, Japan has been considered most reluctant to a CJK FTA. However, for 1990-2010, the intra-regional dependency of Japan's exports and imports rose significantly from 8.2 percent to 27.5 percent; and from 10.1 percent to 26.2 percent; respectively.

Seventh, the Joint Study Committee for a CJK FTA will conclude its work in 2012, and its outcome will be submitted to the leaders at the Trilateral Summit Meeting, which will be held in China in 2012.

Eighth, since the first independent Trilateral Summit Meeting was held in Fukuoka in December 2008, the Trilateral Summit Meeting has become an annual event. In fact, the leaders provided political leadership by launching the Joint Study Committee for a CJK FTA. They could also

provide political leadership for the launch of the CJK FTA negotiations and the conclusion of the CJK FTA.

Lastly, the fact that China-Korea FTA negotiations are likely to be launched in the coming months would be a positive factor with respect to the launch of CJK FTA negotiations and the resumption of the Japan-Korea FTA negotiations.

5. Closing Remarks: Role of a CJK FTA in Asia Pacific Economic Integration

There exist many regional economic integration initiatives such as EAFTA (East Asia FTA) among ASEAN+3, CEPEA (Comprehensive Economic Partnership in East Asia) among ASEAN+6 (3+ India, Australia and New Zealand), FTAAP (Free Trade Area for the Asia Pacific) among APEC members and TPP (Trans-pacific Strategic Economic Partnership).

As mentioned above, a CJK FTA will be essential for the formation of either EAFTA or CEPEA. In my view, a CJK FTA as well as a region-wide FTA in East Asia will also be an important contributing factor in terms of economic integration in the Asia Pacific.

Annex Table 1: Shares of Intra-regional Trade

(Unit: %)

	CJK	NAFTA	EU(15)
1990	12.3	37.2	64.5
1991	13.9	38.9	64.7
1992	14.0	39.7	65.2
1993	16.1	41.0	60.6
1994	17.5	42.4	61.0
1995	18.6	42.0	61.7
1996	19.0	43.4	60.9
1997	18.6	44.4	54.8
1998	17.4	45.7	55.9
1999	19.2	46.8	62.0
2000	20.3	46.8	60.0
2001	21.2	46.6	59.5
2002	22.4	46.0	59.9
2003	23.6	44.8	60.6
2004	24.1	43.7	59.9
2005	23.7	43.0	58.4
2006	22.8	42.0	58.2
2007	22.2	41.0	58.1
2008	21.5	40.0	56.7
2009	22.3	39.4	56.7
2010	22.5	40.5	56.3

Source: IMF(2011), *Direction of Trade Statistics*.

Annex Table 2. Shares of Intra-regional Trade of China, Japan and Korea

(Unit: %)

	China	Japan	Korea
1990	15.0	9.1	21.9
1991	17.3	10.0	24.6
1992	18.2	10.2	23.4
1993	24.2	11.4	23.6
1994	25.2	12.6	24.8
1995	26.5	13.7	24.8
1996	27.6	14.1	23.3
1997	26.1	13.7	22.9
1998	24.5	12.7	21.0
1999	25.3	14.5	23.7
2000	24.8	15.9	25.1
2001	24.3	17.4	25.5
2002	23.5	19.3	27.3
2003	23.1	21.7	29.6
2004	22.3	23.0	30.7
2005	20.8	23.4	31.6
2006	19.4	23.6	30.9
2007	18.2	23.8	31.2
2008	17.7	23.1	29.9
2009	17.4	26.6	30.5
2010	16.9	26.9	34.5

Source: IMF(2011), *Direction of Trade Statistics.*

Chapter 2

Regional Financial Cooperation

The Establishment of the NEADB and the Countermeasure of Local Government: From Conception to Promotion

Gangzhe Li

1. Introduction

In recent decades, Northeast Asia has rapidly surfaced as a new development center of the world. The three countries, in particular China, Japan, and South Korea are forming the core of the Northeast Asian economy.

However, in Northeast Asia, realizing the regional potential for dynamic growth remains a big issue for the developing countries and regional cooperation must be taken as the important requirement. For national economies to develop, one of the most important requirements is development finance. Northeastern Asia requires a major effort in development finance for future regional growth.

Therefore, an initiative to establish multilateral development banks in Northeastern Asia was proposed in the early 1990s and is discussed until the present. Thus the conception of the Northeast Asian Development Bank (NEADB). A lot of Multilateral Development Banks (MDBs) were established around the world after World War II. However, regrettably, in Asia only one Development Bank (ADB) was established, in 1966. Asia contains the majority of the world's population, majority of the world's developing countries, majority of the world's poor population and maximum development subject. It is impossible to procure the huge financial funds which is necessary for the development of the Asian Development Bank. The necessity and the importance of the conception to establish a new NEADB is evident.

The aim of this paper is to recognize the necessity and the importance of the establishment of an NEADB through the picture of the development

finance system in the world.

2. Review of the World Development Finance System

Throughout the world after World War II, a lot of multilateral development financial institutions were established and played a role in promoting reconstruction efforts after the war and in the development of developing countries. The multilateral development finance system in the world starts with the International Monetary Fund (IMF) and World Bank group (IBRD) to have been formed as the principal axis of the Breton Woods system which was formed before the end of World War II.

a) The world level MDBs

The MDB system stands with the development bank organization on three levels (refer to figure 1).[1] There are the International Bank for Reconstruction and Development (IBRD or The World Bank), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and various other agencies throughout the world.

b) The regional level MDBs

At the regional or continental level, the Asian Development Bank (ADB) together with the Asian Development Fund (ADF) is the only development financing institution in Asia. In other continents, there are one or more MDBs. These regional development banks were established respectively, and originally, because it was under the umbrella of the United Nations but it took the way of giving the voting figures of the will decision according to the investment ratio of the participating nations, and actually was independent of the United Nations.

c) The sub-regional level MDBs

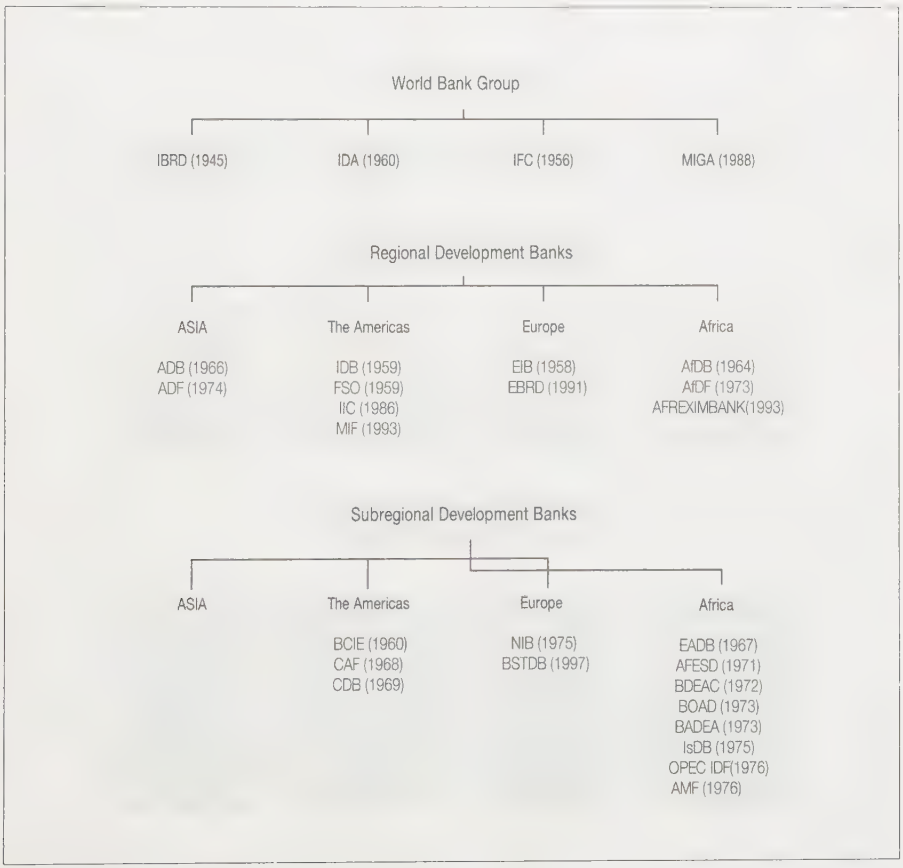
The worldwide and regional MDBs played an important role after World War II for the world to revive and to develop the developing countries. However, the various development demands throughout the world could not be sufficiently satisfied and a lot of sub-regional

1) See the Tokyo Foundation 2002.

development financial institutions were established. Therefore, in the America region, the Banco Centro americano de Integration Economica (BCIE 1960), the Corperacion Andina de Fomento (CAF 1968) the Caribbean Development Bank (CDB 1969) were established in the 1960s.

In the European region, the North European Investment Bank (NIB) was established in 1975, and the Black Sea Trade and Development Bank (BSTDB) in 1997.

Figure 1. The MDB System



Source: JBIC(2011), "MDBs".

In the Africa region, many MDBs were established. The East African Development Bank (EADB 1967), the Arab Fund for Economic and Social Development (AFESD 1971), the Banque de Developpement des Etats de l'Afrique Centrale (DBEAC 1972), the Banque Ouest Africine de Developpement (BOAD 1973), the Arab Bank for Economic Development in Africa (ABEDA 1973), the Islamic Development Bank (IsDB 1975), the Arab Monetary Fund (AMF 1976) and the OPEC Fund International Development (OPEC IDF 1976). There was a background having to do with the times where a North-South problem existed in the United Nations from the 1960s to the 1970s during which many MDBs were established.

However, in Asia, there is a clear lack of development financial system.

3. The Experiences of New Regional-level Development Banks

We do this by drawing on the experiences of three such banks and looking at the lessons that can be learned from them. The three institutions profiled are the present Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), and the Black Sea Trade and Development Bank (BSTDB), (The Tokyo foundation 2002).

3.1 The ADB

Established in December 1966. Participant countries: 61 (Asian 44, Non Asian 17, at 2002). ORC (Ordinary Capital Resources): 43.8 billion U.S. $ (2001). (September 2009, ADB decided to increase the ORC from 55 billion to 165 billion U.S.$). The Asian Development Bank is the only one multilateral development finance system in the Asian region. In the Asian region, the development financial system is much weaker than the European region, American region and African region.

However, the ADB has its weak points (or problems). The ADB played an important role post World War II in the development of Asia . However, the ADB established a Cold War structure, and has structural failures not enabling it to meet the development needs of Asia.

3.2 The EBRD

Established in April 1991, Participant countries: 62 (European 52, Non

European 10, at 2002), ORC 20billion EURO (2001).

It was suggested in 1989 by then French President Francois Mitterrand as a vehicle for assisting what were then the Soviet Union and the nations of Eastern Europe, which had begun to move toward a market economy. Two fundamental principles were therefore stipulated upon its launch in 1991. First, the EBRD would promote market economy reforms. Second, 60% or more of the bank's total investment and loans would be funneled into the private sector. The EBRD's investment and loans totaled 2.6 billion ECUs in 2000. Although the share of Central and East European countries was high throughout the 1990s, Russia accounted for 20.6% at the end of 2000 and has become the largest recipient. Financial institutions, the industrial and business sectors, and the so-called infrastructure sector each account for 29% of the EBRD's cumulative investment and loans.

Various aspects of this bank are instructive, such as the importance given to the initiative for its establishment; the independence of its activities, which focus on support for the private sector; and cooperative financing that involves other organizations, including private-sector financial institutions, as well as capital markets. Nevertheless, there are also more than a few problem points that need to be considered, such as the fact that the EBRD is controlled by advanced Western nations and the efficiency of its lending activities.

3.3 The BSTDB

Established in April 1997, Participant countries: 11, ORC 1 billion DRS (2001).

It is the first sub-regional development bank to have been established after the end of the Cold War between East and West. Its membership consists of 11 countries along the coast of the Black Sea, including Greece, Russia, and Turkey. This Bank commenced operations in June 1999 with authorized capital of 1 billion SDRs (approximately 1.35 billion dollars) and paid-in capital of 100 million SDRs. As of March 2001 its loans numbered 16 and totaled 126 million dollars: 74.4 million dollars in project financing and 51.6 million dollars in trade loans. Although we must wait for more time to pass before we can evaluate the BSTDB's performance, we can identify three points as reasons why it has achieved a certain level of results in a comparatively short time. One is the European Union's powerful influence. The second is that the BSTDB engages in solid financing activities

with a strong emphasis on trade. Third is its flexibility in terms of the geographic areas that receive financing. There is still room for improvement, though, with respect to the positioning of the European Union and financing activities for infrastructure and other purposes.

The three institutions profiled above were each established at a different point in time: the ADB during the era of the Vietnam War (1966 - 74), the EBRD with the collapse of the Cold War structure (1991), and the BSTDB as a product of the EU's Black Sea policy.

4. Financial Cooperation in East Asia after the Asian Currency Crisis

4.1 A Miyazawa Initiative

The financial crisis of 1997 had a big influence on Asian developing countries. The Japanese government had suggested to support developing countries in Asia, which was an idea of Minister Mr. Miyazawa, the so called "Miyazawa Inititative," who was the Japanese Minister of Finance.

To assist Asian countries in overcoming their economic difficulties and to contribute to the stability of international financial markets, Japan stands ready to provide a package of support measureing a total of US$30 billion, of which US$15 billion will be made available for the medium- to long-term financial needs for economic recovery in Asian countries, and another US$15 billion will be set aside for their possible short-term capital needs during the process of implementing economic reform.[2)]

4.1.1 Medium- to Long-term Financial Support to Asian Countries

a. Need for funds in Asian countries

Asian countries affected by the currency crisis need medium- to long-term capital to implement the various policy measures described below for economic recovery. (1) Supporting corporate debt restructuring in the private sector and efforts to make financial systems sound and stable. (2) Strengthening the social safety net. (3) Stimulating the economy (implementation of public undertakings to increase employment). (4)

2) The Minister of Finance of Japan, refer to the home page of MOF.

Addressing the credit crunch (facilitation of trade finance and assistance to small- and medium-sized enterprises).

b. Measures for financial assistance

To meet the medium to long term capital needs of Asian countries, Japan will extend financial assistance to those countries making use of the various measures listed below. In doing so, due consideration will be paid to the better use of the Tokyo market to mobilize Japanese funds.

(1) Providing direct official financial assistance. i) Extending Export-Import Bank of Japan (JEXIM) loans to Asian countries. ii) Acquisition of sovereign bonds issued by Asian countries by JEXIM. iii) Extending ODA yen loans to Asian countries

(2) Supporting Asian countries in raising funds from international financial markets

i) Use of guarantee mechanisms

a) Utilizing the guarantee functions of the JEXIM
- The JEXIM will guarantee bank loans to Asian countries.
- The JEXIM will guarantee sovereign bonds issued by Asian countries (legal amendment is necessary).

b) Providing export insurance to bank loans to Asian countries

c) Requesting the World Bank and the Asian Development Bank to step up their efforts to provide guarantees to bank loans and bond issuance by Asian countries

d) It is hoped that in the long run the establishment of an international guarantee institution with a prime focus on Asian countries will be seriously considered.

ii) Interest subsidies

Japan will establish an Asian currency crisis support facility backed by our funding. This facility will be used to provide interest subsidies to Asian countries that borrow funds from JEXIM or private banks in conjunction with loans from the Asian Development Bank. This will be an open facility in which all countries are welcome to take part.

(3) Financial support in the form of co-financing with multilateral development banks

Japan will continue to provide co-financing with the World Bank and the Asian Development Bank to Asian countries. In particular, we will call for maximum financial assistance from the World Bank

and the Asian Development Bank to support those Asian countries that are faced with huge capital needs in an effort to address the issue of corporate debt restructuring and the restoration of stability in the financial system. We are ready to provide co-finance with these two banks.

(4) Technical assistance
The World Bank and the Asian Development Bank will be requested to provide necessary technical assistance through Japanese special funds to Asian countries that are to implement a comprehensive approach to address the issue of corporate debt restructuring and the restoration of the financial system. Japan is prepared to contribute by means of providing technical assistance to these Asian countries, taking into account the respective situations in those countries.

4.1.2 Short-term Financial Support to Asian Countries

Asian countries may face some needs for short-term capital in the course of making progress in their economic reform. To be prepared to meet these needs such as facilitation of trade finance, Japan will set aside US$15 billion in short-term funds which will take the form of swap arrangements.

Japan intends to cooperate closely with the multilateral development banks and the related countries, especially the Asia-Pacific countries and G-7 countries, in implementing the new initiative.

4.2 The Asian Monetary Fund (AMF) Initiative

Substantive initiatives for regional cooperation on financial and monetary issues developed in the wake of the financial crises that hit many East Asian countries in 1997 and 1998. Prior to the crisis, there was only one region-wide dialogue forum that explicitly focused on financial and monetary issues, in the form of the Executives Meeting of East Asian Central Banks, established only in 1991. It has held bi-annual meetings at the senior official level since then, and the first Executives' Meeting of East Asia-Pacific (EMEAP) central bank governors was held in July 1996.[3] Other

3) The group comprises Singapore; Malaysia; Indonesia; Thailand; the Philippines;

institutions dealing with finance were similarly low-profile, such as the South East Asia, New Zealand, Australia (SEANZA) and SEACEN) central bank groups centered in Southeast Asia. Southeast Asia's premier regional organization, the Association of Southeast Asian Nations (ASEAN) did not have a regular finance ministers' meeting until 1997.

After the crisis, given the consensus that the region had been under-prepared to deal collectively with issues of common interest, East Asia (Southeast Asia and Northeast Asia) emerged as a relatively new arena for regional cooperation, under the banner of "ASEAN Plus Three" (APT, also known as ASEAN+3), which brought together the members of ASEAN with the People's Republic of China, Japan, and the Republic of Korea. Regular Asia-Europe (ASEM) meetings have also been a forum for regional dialogue on financial cooperation.[4)]

The Asian Development Bank (ADB), headquartered in Manila, initially took the lead in hosting nascent efforts at regional surveillance, financial monitoring, and generating research relating to regional integration.[5)]

Regional financing facilities that might be drawn on in a crisis were very limited before the 1997 crisis. There existed a (never used) small intra-ASEAN swap arrangement that had been agreed to in 1977, and some bilateral repurchase arrangements were signed in the 1990s, mostly one-way facilities provided by Japan (Hamilton-Hart 2003). Japanese officials had been considering the merits of some kind of regional crisis management facility before the regional crisis and in the early stages of the crisis they raised the idea of an "Asian Monetary Fund" (AMF) privately with Asian governments. Strong opposition from the United States (USA) and a lack of support from the PRC meant that the proposal was shelved.

Since then, the development of regional financial facilities or lines of support that could be activated during a crisis has been the major focus

---

the PRC; Hong Kong, China; Republic of Korea; Japan; Australia; and New Zealand.

4) See, for example, speeches at the 2001 finance ministers' meeting (available at www.mof.jo.jp/english/asem).

5) Kuroda, H., and M. Kawai (2004), Strengthening Regional Financial Cooperation in East Asia., Financial Governance in East Asia: Policy Dialogue, Surveillance and Cooperation, edited by G. de Brouwer, and Y. Wang. London: Routledge Curzon.

of regional financial cooperation. The plan to establish bilateral swap facilities, known as the Chiang Mai Initiative (CMI), was announced by the APT finance ministers in May 2000, and the ASEAN swap facility was increased to $1 billion later that year. A series of bilateral swap arrangements were negotiated over the next years, creating a headline "envelope" of total financing under the CMI that exceeded the amounts disbursed by the International Monetary Fund (IMF) during the 1997-98 crisis.

However, the significance of the CMI swaps was much more limited in practice. First, the amount available to any one country should the swap lines be activated was a great deal smaller than the total envelope suggested. Second, as widely noted, the release of all but 20% of the financial resources were dependant on having an IMF program in place.

An officially-sponsored study, published in 2004 and presented to APT officials in March, recommended options such as "multilateralizing" the swaps, earmarking a portion of each country's foreign reserves for use under the CMI, a comprehensive regional surveillance system and centralized reserve pooling.[6] Initially, APT finance ministers did not endorse any of these proposals, merely referring the issue of financial cooperation for further discussion and study. Several of the ideas for further cooperation proposed in the ADB report were, however, taken up over the following years.[7]

A major step was when the agreement to multilateralize the CMI came into force in March 2010. This provided for a total pool of resources of $120 billion, with contributions adjusted so that each country would contribute equally (ASEAN Plus Three 2010).[8] China (together with Hong Kong) and Japan each agreed to contribute 32% of the amount, Korea another 16%, and the ASEAN countries the remaining 20%. Within ASEAN, Indonesia, Malaysia, Thailand, and Singapore agreed to contribute $4.77 billion each, while the Philippines provided $2.64 billion. In times of crisis, these five ASEAN members can withdraw 2.5 times their contribution.[9]

---

6) ADB (2004), *Monetary and Financial Integration in East Asia: The Way Ahead,* Vols 1 and 2. Basingstoke, UK and New York, NY: Palgrave Macmillan.

7) Kawai, M (2010), *From the Chiang Mai Initiative to an Asian Monetary Fund.* Paper prepared for the Columbia University-ADB-ADBI conference on the Future Global Reserve System. 17 - 18 March, Tokyo.

8) On the negotiations surrounding CMIM contributions, see Kawai 2010.

In parallel, and in order to support the potential option of de-linking CMI funds from IMF conditionality, a capacity for regional surveillance has slowly been developed. Despite a lack of enthusiasm by some regional countries, initiatives for information-gathering and analysis were initially located within the Asian Development Bank, which developed a prototype for a regional early warning system. After having been referred by finance ministers to various working groups over the years, a significant further step towards institutionalizing a regional surveillance capacity was made with the agreement to set up an ASEAN+3 Macro economic Research Office (AMRO) in 2010, for which a director was appointed in 2011.[10] Although not explicitly linked to the issue of monetary cooperation, the development of a surveillance capacity is an important part of the institutional infrastructure for collective action on monetary issues as well as crisis management. Lessons from other regions suggest that effective monetary cooperation should include a mutual surveillance mechanism and a regional financing facility, in addition to a common unit of account and exchange rate coordination.[11]

4.3 The Asian Bond Markets Initiative (ABMI)

Another crisis prevention initiative aims to improve the region's self-sufficiency in long-term finance and reduce its reliance on bank financing. Towards this end, in 2001 the APT in association with the ADB took up an initiative to develop regional bond markets and close the gap between ratings on Asian bonds and the needs of local institutional investors. This developed as the Asian Bond Markets Initiative, under which a multilateral Asian Bond Fund to guarantee bond issues was launched, along with a series of working groups that have carried out numerous studies on credit guarantee mechanisms, regional clearing and settlement mechanisms and impediments to cross-border bond investments.[12]

---

9) Asean Plus Three (2010), The Joint Ministerial Statement of the 13th ASEAN+3 Finance Ministers' Meeting. Tashkent, 2 May 2010.

10) Asean Plus Three (2010), The Joint Ministerial Statement of the 13th ASEAN+3 Finance Ministers' Meeting. Tashkent, 2 May 2010.

11) Kawai, M., and S. Takagi (2005), Towards regional monetary cooperation in East Asia: Lessons from other parts of the world. *International Journal of Finance and Economics* 10: 97 - 116.

12) Developments regarding to the ABMI and ABF, along with related studies and

5. Proposal for New Financial Cooperation Framework

The Northeast Asia region includes not only Japan and South Korea, but also large developing countries like China, Russia, and Mongolia, which are in transition from a planned to a market economy (as well as North Korea, which is likely to begin transition soon). To build sustainable development and prosperity in this now-unbalanced region, development support to the countries in transition is indispensable. Technically, the ADB should support these programs, but historic complications make it difficult for North Korea and Russia to join. Also, because there are so many developing countries in the whole of Asia, and because the percentage of population in poverty is more than half the global total, the ADB does not have enough resources to meet the needs of Northeast Asia and the rest of Asia as well.

The NEADB initiative will compliment the role of the ADB in Asian development, focusing on the needs of Northeast Asia. It would be responsible for financing projects such as cross-border infrastructure development, such as gas pipelines and expanded rail connections throughout the region. It would also provide specialized knowledge necessary for expanding "hard" and "soft" infrastructure in the region's developing countries.

As a country that is successfully switching over from a planned to a market economy and experiencing continued economic expansion, China is the natural model for the regional developing countries. These countries (North Korea, Mongolia, and the Far East of Russia) also share borders with China. Japan and South Korea are in a position to jointly provide funding and technological support for these countries, as they have for China in the past.

Cooperation between the three countries (Japan and China and South Korea) is a necessity, and moreover the advancement of Northeast Asian economic cooperation to the next step requires the joint leadership of the three countries. Currently, East Asian regional cooperation through the "ASEAN+3" framework is highly regarded. However, from a mid- to long-term strategic viewpoint, the inclusion of nearby countries such as Mongolia and North Korea is essential to maintaining peace, stability, and sustainable development throughout the region. Therefore, Northeast Asian

---

commentary, are available through the website of the ADB.

regional cooperation must be accompanied by a strong movement towards East Asian strategic cooperation.

The 1997 Asian financial crisis made the necessity of economic cooperation apparent. In the case of Northeast Asian regional economic cooperation, the relevant countries began to recognize that financial cooperation is of the utmost importance, especially addressing the problem with financing development. Currency stabilization and the development finance problem are of equal importance, and need to be dealt with simultaneously.

First, the establishment of a Northeast Asian multilateral cooperative institution can be contrived when the Northeast Asia region must draw the ground design for mid- to long-term development and thinks of it from the perspective of regional financial cooperation. Also, the Northeast Asian region possesses considerable foreign currency assets. Now, the foreign reserves have reached 5,348 billion $ - over 70% of the world total in 2010 - and Northeast Asia has become one of the "rich regions" in the world.

6. Conclusion

The Northeast Asia Regional Cooperation paradigm is changing, with relations between Japan, China and South Korea improving rapidly after the Asian financial crisis of 1997. It may still be too early to say that cooperation between the three countries amounts to Northeast Asian regional cooperation, but a framework for regional cooperation will certainly emerge in the near future. Japan, China and South Korea will form the core of regional cooperation, and must take the leadership initiative jointly.

It's possible to say that, among the Northeast Asian countries, only Japan showed a negative reaction to the idea of cooperation, but in recent years, Japan has greater incentive to support the creation of a multilateral financial institution for regional development and to reconsider the importance of regional cooperation. Japan must recognize that the cost of establishing a Northeast Asian Development Bank is small compared with the strategic benefits and the strengthening of peaceful relations in the region.

References

ADB. 2004. *Monetary and Financial Integration in East Asia: The Way Ahead,* Vols. 1 and 2. Basingstoke, UK and New York, NY: Palgrave Macmillan.

Amyx, J. 2004. "Japan and the Evolution of Regional Financial Arrangements in East Asia." *Beyond Bilateralism: U.S.-Japan Relations in the New Asia-Pacific.* E. Krause, and T.J. Pempel. Stanford eds. CA: Stanford University Press.

Asean Plus Three. 2010. *The Joint Ministerial Statement of the 13th ASEAN+3 Finance Ministers' Meeting.* Tashkent. (May 2)

_____. 2011. *Joint Ministerial Statement of the 14th ASEAN+3 Finance Ministers' Meeting.* Hanoi. (May 4)

Bergsten, C. F., and Y. Park. 2002. "Toward Creating a Regional Monetary Arrangement in East Asia." ADB Institute Research Paper Series No. 50. Tokyo. (December)

Financial Governance in East Asia: Policy Dialogue, Surveillance and Cooperation. G. de Brouwer, and Y. Wang eds. London: Routledge Curzon.

Gang-zhe LI. 2004a. *The Paradigm Change of Regional Cooperation in Northeast Asia and Financial Cooperation.* Discussion Paper. Economic Research Center, Nagoya University. (August)

_____. 2004b. *A View of Regional Economic Cooperation Policy for Northeast Asia in the Japan.* UNIDO &UNDP TRIS Network Meeting in Vienna, Austria. (November)

_____. 2009. *The Paradigm Shift in Northeast Asia Regional Cooperation and the Role of Japan.* Asia Economic Community Forum, Incheon, Korea, 11 - 13 November.

Gang-Zhe LI and Li GUO. 2006. *Regional Financial Cooperation of Northeast Asia in Era 21st : Challenge to Establish an NEADB—Theory and Reality.* Gang-Zhe LI and Li GUO eds. China Academy for Social Science Press. Beijing, China. (February)

Hamilton-Hart, N. 2003. "Co-operation on Money and Finance: How Important? How Likely?" *Third World Quarterly,* 24(2): 283 - 297.

Kawai, M. 2010. "From the Chiang Mai Initiative to an Asian Monetary Fund." Paper prepared for the Columbia University-ADB-ADBI conference on the Future Global Reserve System. 17 - 18 March, Tokyo.

Kawai, M., and S. Takagi. 2005. "Towards Regional Monetary Cooperation in East Asia: Lessons from Other Parts of the World." *International Journal of Finance and Economics,* 10: 97 - 116.

Kuroda, H., and M. Kawai. 2004. "Strengthening Regional Financial Cooperation

in East Asia."

Rajan, Ramkishen. 2001. "Financial and Macroeconomic Co-operation in ASEAN: Issues and Policy Initiatives. *ASEAN Beyond the Crisis: Challenges and Initiatives.* M. Than ed. Singapore: ISEAS.

The Tokyo Foundation. 2002. Five Proposals for the Establishment of a Northeast Asian Development Bank: Towards the Japan-China- South Korea Summit. *The Establishment of a Northeast Asian Development Bank and Japan's International Cooperation Policy Project..* The Tokyo Foundation. (July)

The Necessity and Feasibility for Establishing the Northeast Asian Bank for Cooperation and Development (NEABCD)

Junlyu Ma, Jianping Zhang, and Ming Liu

1. The Necessity for Establishing the NEABCD

1.1. Meeting the Requirement of Sustainable Development of the Northeast Asia

To maintain the sustainable development, the most important areas are energy security, green and low carbon economy, environmental protection, transportation and logistic network construction. Northeast Asia countries need a regional financial mechanism to provide long-term capital and give technical support for regional cooperation and development in those areas, particularly in large-scale cross-border infrastructure projects.

There is a widening gap in economical development level between Northeast Asia countries. The proposed NEABCD would help the optimization and adjustment of the industrial structure in Northeast Asia and promote the development and improve the technology and innovation capability.

Japan and South Korea have the comparative advantages on the technology, management and capital sector; China possesses a large market with fast growing and great potentials, high-quality but low cost labor resources; Russia has the prevailing technology, large amount of natural resource and high potential market as well; on the side of Mongolia and North Korea, they have a huge demand of resource and infrastructure development. Through the multilateral financing mechanism of Northeast Asia Bank for Cooperation and Development, it could effectively integrate and allocate the recourses in the region and to the benefit of promoting

realizing the idea of Northeast Asia free trade zone, and this will also result in the common benefit of all the NEA counties.

The proposed NEABCD would not only stimulate the economic cooperation in the region but also help attract the international capital and advanced technology. Moreover, it can help the Northeast Asia countries in the region to extend their positive impact within and beyond the region and help the development in Asia-Pacific region.

1.2 Meeting the Large Financial Requirements in Infrastructure in Northeast Asia

There is a large amount of financing demand for the infrastructure construction in Northeast Asia, particularly for the cross-border projects on natural resources, technology spillovers and trade and logistics. It is very difficult for any single country to undertake the huge amount of investment as well as risk alone while a regional development financial institution would meet the requirements and provide financing for such projects continuously.

The current multilateral financial institutions could not meet financing need of Northeast Asia development and infrastructure construction. For example, Asian Development Bank, as the multilateral financial institution in Asia, mainly focuses on the operation of the impoverished area of Southeast and East Asia, the investment on Northeast Asia region accounts for 4% of the Asian Development Bank's total investment. World Bank, as the world's biggest development bank, mainly invests in the poor areas of Latin America and Africa. Under these circumstances, there will be no big change in the near future for NEA to get more financial support (Katz 1998, 2000, 2002).

The establishment of Northeast Asian Bank for Cooperation and Development, could not only effectively supplement deficient investment of other multilateral financial institutions to NEA region, but also can form a complementary cooperation relationship between other international financial institutions.

1.3. Adjusting the Imbalance of Regional and Global Financial Development

The establishment of modernized NEABCD would help the member

countries to setting the finance and monetary policies and strengthen supervision on the financial markets so that they can harmonize their strategies to prevent the spread of potential crisis and maintain the regional stability.

Northeast Asia Bank for Cooperation and Development could issue different nations' guaranteed bond in this area, develop regional bond market, increase the variety of investment assets which can be invested by governments of this region. The bank can also help absorb the large amount of foreign exchange reserves from different economy, reduce the excess dependence on dollar reserves among the NEA countries, and then help to ameliorate the issues of deposits-resource loss in Northeast Asia and the imbalance of international payment between NEA nations and the United States of America.

1.4. Promoting the Economic Integration of the Northeast Asia Region

The Northeast Asian nations have highly diversified economy and the resources among the countries are complimentary (Katz 1998, 2000 and 2002; Katz and Cho 2002). They also share similar culture. These advantages make this region a perfect natural economic zone for win-win cooperation. With regional trade and investment growing rapidly and more frequent economic exchanges, the intra-regional interdependency has gradually been promoted. The establishing of the regional financial institute would not only help to eliminate the difference in economic aspect but also help to promote the understanding among the nations in the region and minimize the negative effects of geopolitics and history. It can also help to establish the Northeast Asia Economic Community.

It is very necessary to establish a financial support for the integration of the Northeast Asia Region. The proposed NEABCD would promote the cooperation and communication and would stimulate the intraregional trade and investment in natural resource, technology, goods and service and help to formulize the FTA of the Northeast Asia and EAFTA.

2. The Feasibility for Establishing the NEABCD

2.1. The Basic Credentials are Matured

Currently, the Northeast Asia region is the third largest regional economy in the world and is preceded only by United States of America and European Union. It is also the region with the largest development potential and fastest economic growth among the world. The total foreign exchange reserves rank first in the world. China, Korea and Japan are all major capital-exporting countries. We have the ability of absorbing as well as allocating the financial resource and we have the ability of management.

The Northeast Asia region has formed a network production sharing structure. Resources, capital, technology, production, management, marketing and service are formed robustly. The high dependence between each NEA country has set up a good economic foundation for the mechanism of sharing the mutual benefit and risk and provide the energy for the further regional development.

During the process of overcoming the global financial crisis, Northeast Asia countries have realized that the regional cooperation can never be overestimated. The establishment of NEABCD is a very objective choice for the economic cooperation and financial cooperation.

2.2 The History of the Research and Institutional Supports of NEABCD

The idea of the NEABCD was proposed in 1991, when NEAEF had its first annual conference in Changchun and Tianjin, China. It was proposed as the Northeast Asian Development Bank (NEADB).

NEAEF promoted the initial research on the establishment of the NEABCD in the following years. In 1997, in the 7th annual conference of NEAEF held in Ulaanbaatar, Mongolia, the proposed bank became a major topic and Dr. Stanley Katz's leading research on this topic draw increasing attentions.

In 1999, the 9th annual conference in Tianjin made the topic more attractive and thereafter, the bank topic was discussed thoroughly in almost every annual conference. Tianjin made commitments on the NEABCD[1] and

1) Please refer to the attachment.

Tianjin became one of the most active cooperative partners for establishing the NEABCD. From then on, Tianjin played a very important role in promoting to establish the NEABCD.

6th Ad-Hoc Committee Meetings were held for establishing the NEABCD in Tianjin, Los Angeles and Honolulu, respectively. On the 4th Ad-Hoc Committee, the so-called NEADB were changed to NEABCD to avoid the misunderstanding between ADB and NEADB.

Under the leadership of the NEAEF and with the strong support from Tianjin Municipal Government, in 2009 the Research Center for Financial Cooperation in Northeast Asia was established at Nankai University, Tianjin, China. Its charters indicate that the purpose and mission of the Research Center is to establish the NEABCD. It is fulfilling its mission now.

2.3. The Consensus on the Establishment of NEABCD

It has been more than 15 years since research began on the establishing the NEABCD under the leadership of NEAEF. Many conference materials document the each step of progress of the research efforts. Various research organizations from China, Korea, Japan, Mongolia, Russia and the United States have continuously supported and actively participated the research and discussion about promoting the establishment of NEABCD, Consensus is reached from non-government level that it is necessary and feasible to establish the NEABCD and the time appears ripe to move the Bank proposal forward on a fast-track basis. On that basis, the Bank can be established considerably sooner than had been anticipated earlier.

China Development Bank, China Export-Import Bank, Korean Export and Import Bank, Japan Bank for International Cooperation are governmental affiliations and are all get involved in the research on establishment of the bank.

The idea of the establishment of the bank has already got the supports and endorsements form some NEA governments and international organizations. Chinese central government has clearly states that will fully support the research on the establishment of NEABCD. Many governmental officials in their private individual capacity and researchers from all the countries in the region expressed their supports and UNDP and Parliament of European Union also sent their representatives to attend the discussions and give full concerns.

China's rising provide more opportunities for the NEABCD. As

discussed in a series of meetings in Honolulu and Tianjin, China is playing very important role in the world economy and in the Northeast Asia region. China is also willing to make any necessary contribution to the regional economic development and the integration of regional economy. Tianjin, as the financial and economic center of Northern China, provided, is providing and will provide very strong support for the establishment of NEABCD.

The various Memorandums from recent meetings emphasized the importance of cross-border projects and sustainable development, which is a very important complimentary for the work of ADB and World Bank.

From the analysis of existing cases, the regional and sub-regional multilateral financial institutions are able to coexist with each other. In Europe, there is the European Bank for Reconstruction and Development and European Investment Bank .Besides, the Nordic countries set up Nordic Investment Bank for the development of their local economies. In America there is Inter-American Development Bank and North American Development Bank which complements each other.

3. The Financing Requirements and Management of Cross-Border Projects in Northeast Asia

3.1. Multilateral Development Bank is the Most Effective Channel for Financing Major Cross Border Projects

3.1.1 The Features of Major Cross Border Projects Financing

The major cross border projects features a large amount of capital and a long investment payoff period. In the long term strategic perspective, projects have a great profit potential, but low profitability in the short term. Currently, most of the successfully operated large-scale cross border projects are supported by the loans and guarantees of major policy international or regional financial institutions that do not aim for short-term profits.

The financing of major cross border projects is far beyond the capacity of mobilizing the deposit and foreign exchange of one single nation or one certain region. It is also difficult to manage cross-border projects. Moreover, the sole private capitals normally do not have the capacity or will to invest in the major cross border projects independently. The

multinational banks have their comparative advantages in financing and managing these large scale cross-border projects.

The cross border projects mainly focus on energy, transportation, environment, education and health care, etc.

3.1.2. The Financing Channel of Northeast Asia Regional Cross Border Projects

Currently, none of the multinational policy banks has covered all the countries in Northeast Asia region. As a result, most of the cross border projects of NEA region could only get very limited capital from current multilateral development banks.

World Bank and Asian Development Bank's emphasis on financing of poverty-reduction projects. Northeast Asia economies have a comparatively higher income level. So NEA countries have no advantage to gain the capital support from current multilateral development banks.

The geographical investment area of World Bank and Asian Development Bank is relatively wide. However, the geographical investment area of NEABCD is mainly focused on the Northeast Asia region. The bank can also become a complementation and cooperate with the current multilateral financial institutions.

3.2. Major Cross Border Projects in Northeast Asia Region and Its Financing Requirements

On the basis of current data, the Northeast Asia region exists a huge capital demand on the infrastructure construction for projects of energy cooperation, natural reserves exploitation, low carbon economy development, energy conservation and environmental protection, logistic and transportation and technology trade.

For instance, it is estimated that in next thirty years, the upgrading and renovation of current energy infrastructure in the Far East Area of Russia at least need 150 billion dollar investment. For example, the major natural gas projects require 100 billion dollars investment, the major oil projects require 20 billion dollars investment, and the hydroelectric system construction require 8.4 billion dollars investment.

Along with the development of Northeast Asia region, the NEABCD can also support the multinational economic and trade cooperation projects, cultural exchange projects, modern high efficient agricultural projects.

For example, the development of border economic cooperation zone of China-Russia, China-North Korea, China-Mongolia and China-Russia-North Korea. The estimated investment only for development of Hunchun-Khasanskiy-Naenara multinational border economic cooperation zone has exceeded 10 billion dollar.

There are more projects in plan need more capitals including Busan-Fukuoka ocean transportation network, channel tunnel among China, Korea and Japan, etc.

4. Purpose, Character and Principle of Northeast Asia Bank for Cooperation and Development

4.1. The Purpose - To Promote the Sustainable Development of Northeast Asia Region

NEABCD will put priority on large scale cross border infrastructure construction, energy and natural resources development, energy-saving and emission-reduction, low carbon economy, environmental protection and promotion of intraregional trade and investment and meet the continuously capital demand of middle income country or country which gradually stepping into the middle income level.

4.2. The Character - Subregional Multilateral Policy Bank

NEABCD will accept capital contribution of NEA nations' policy banks with governmental background and allocate the investment capital through policy-oriented operation.

4.3. Capital Scale Proposed 40 Billion Dollars for Initial Capital

4.3.1 The Total Capital Amount

The current practice of the multilateral financial institutions is to take the total GDP amount of the area as the chief reference to fix the total capital amount, i.e. to fix the ratio of the bank's capital amount to the total GDP amount of all countries in the area. In our case the capital amount of the Bank will be mainly determined by taking reference to the GDP amount of all countries in Northeast Asia, while the investment demand in the region and the orientation of the Bank will also be considered.

With regard to the following such as the total GDP amount in Northeast Asia, the current practice of the capital amount determined by the membership countries of multilateral financial institutions, the tremendous investment requirement in Northeast Asia, and the Bank's main objective of supplying fund to the basic facilities construction in the region, we consider to set the ratio of the Bank's total capital amount to the GDP amount of all countries in Northeast Asia as 0.5%. Therefore, the Bank's total capital amount will be USD40billion.

4.3.2. Subscription Approach

The equity of the Bank is composed of paid-up capital and uncalled capital. The paid-up capital, which is the actual capital every member country contributes, is the original capital when the Bank starts to operate; while the uncalled capital is a back-up fund which will not be paid unless the Bank meets with some emergencies or operation crises.

In order to design the paid-up capital ratio, we must not only draw the experience from other multi-lateral institutions but also take the financing needs and the economic strength in Northeast Asia into account. The following table shows the paid-up and uncalled capital ratio of the major multilateral institutions.

Table 1. The Paid-up and Uncalled Capital Ratio of the Major Multilateral Institutions

Bank	Paid-up Ratio	Uncalled Ratio
World Bank	20%	80%
Asian Development Bank	7%	93%
European Development Bank	30%	70%
American Development Bank	4.3%	95.7%
Nordic Investment Bank	10.1%	89.9%

The Bank's main objective is to supply fund for basic facilities construction in Northeast Asia. These projects generally need huge amount of fund and take many years, thus the paid-up capital by the membership country should be as much as required. In addition, with regard to the economic strength of every member country, the paid-up capital ratio will be set as 10%.

With the economic development and increasing financial demand, the

bank could gradually increase the capital and stock.

4.4. The Principle of Share Allocation - Considering All Aspects of NEA region.

The NEA countries are the major shareholder with a controlling stake. The non-regional countries and international financial institutions can also take part in the NEABCD. The share allocation of every NEA country could refer to every nation's GDP, foreign exchange reserves, foreign trade volume and their relevant growth rate, and using the synthetically weighting method.

4.5. Selection of Headquarter - Consider the Efforts and Credentials from the Candidates

Selection of Headquarter will consider the efforts and credentials from the candidates which could be from any country in the region. The headquarters of the NEABCD should be located in the Northeast Asian region and must meet the following requirements: capabilities for both domestic and external financing expansion, effective channels of international transportation and communication, low cost operational environment, and ability to provide high quality offices, living accommodations, educational facilities and feasible logistic services. According to the convention of multilateral financial institutions, the headquarters should have strong policy support from both central and local governments of whereabouts.

In China Tianjin is proposed to be the headquarter place for its previous efforts and economic development and potentials. Tianjin municipal government is committed to provide an office building for NEABCD. Tianjin is also committed to providing convenient working and living conditions such as health care and education facilities for children for NEABCD staff and officers. Any other candidates from the region, such as from Japan and South Korea, also welcomed warmly.

4.6. Selection of Chairman of the Board and President of the Bank

After the site selection of bank headquarter, considering the benefits of the headquarter-located country and the other countries, shareholders

will select the Chairman of the board. The president of the bank will be recruited through a world wide open selection, and adopt the fixed-tenure appointment system.

References

Cho, Lee-Jay and Stanley Katz. 2001. "Why a Northeast Asian Development Bank?" NIRA Review, *A Journal of Opinion on Public Policy Worldwide*, Vol. 8, No. 1. (Winter)

Conference Documents - Nankai Consensus (2nd board member meeting of the Research Center for the Financial Cooperation in Northeast Asia

Conference Documents - Memorandum of Understanding (the Expert Group Meeting on Financial Issues in Northeast Asia, in Honolulu, Hawaii, USA, May 2009)

Charter of the Research Center for Financial Cooperation in Northeast Asia (7th May, 2009) (page 130)

Conference Documents - Memorandum for Record Concerning the Special Follow-Up Meeting on the Northeast Asia Bank for Cooperation and Development (23rd Nov, 2007)

Developing the Economy of Northeast Asia- Is a Sub-Regional Development Bank Needed? Meeting in Osaka Japan (2001)

Hiroshi, Watanabe. 2008. Financial Cooperation in Northeast Asia - Steps towards a Northeast Asia Bank for Cooperation and Development (October 28)

Joint Statement of the Fourth Meeting of the Ad Hoc Committee for Establishing the Northeast Asia Bank (25th July, 2007)

Katz, Stanley. 1998a. *Establishing a Development Bank for Northeast Asia Policy Issues.*

_____. 1998b. *Hypothetical Allocation of Shares in New NEADB.*

_____. 1998c. *What Regional Initiatives Should Be Taken?*

_____. 1999a. *The Role of a Northeast Asian Development Bank in Northeast Asia's Future Development.*

_____. 1999b. *The Northeast Asian Development Bank - A Prerequisite for Developing the Economy of Northeast Asia.*

_____. 2000. *The Need for a Northeast Asian Development Bank.*

_____. 2007a. *Northeast Asia Bank—Past, Present and Future, Comments for Tianjin.*

_____. 2007b. *An Option for Northeast Asia: Establishment of a Northeast Asian Development Bank.*

_____. 2009a. *Memorandum for 'NEADB: Future Work & Fast-Track Approval.*

_____. 2009b. *The Northeast Asian Bank for Cooperation and Development from Rhetoric to Reality.*

Nam, Duck Woo. 2000. *Why Is a Northeast Asian Development Bank Needed?*

Tianjin. 2000. "Why a New Development Bank for Northeast Asia?" (May)

_____. 2007. "Research on the Establishment of Northeast Asia Bank."

Review of Accounting Policies and Operating Methodologies for Existing Development Banks

Wonkee Pae

1. Introduction

In relation with the proposed new development bank for North East Asian, the purpose of this article is to review accounting policies and operation methodologies for existing development banks over the world.

The International Bank for Reconstruction and Development (IBRD) is known as the first international development bank. However, this paper focus on the following six regional development banks, in the reason that the proposed new bank is a regional development bank.

Table 1. Summary of Six Regional Development Banks

Name of Bank		Year of Establishment	Head-office Location	Auditor
IDB	Inter-American Development Bank	1959	Washington, USA	E&Y
AFDB	African Development Bank	1964	Tunis, Tunisia	KPMG
ADB	Asian Development Bank	1966	Manila, Philippine	Deloitte
EBRD	The European Bank for Reconstruction and Development	1991	London, U.K.	PwC
NADB	North American Development Bank	1993	San Antonio, USA	E&Y
BSTDB	Black Sea Trade and Development Bank	1999	Thessaloniki, Hellenic	E&Y

2. Regional Development Banks by Each Area and External Auditors

As shown in Table 1, there are six development banks over the world, and we can see that there are two development banks in the northern American area, and two development banks in Europe respectively. In this reason, we have a good logic that another development bank in Asian area in addition to Asian Development Bank (ADB).

We also see that the external auditors are appointed from among big 4 accounting firms, and this is essential for the banking industries. In this connection, the proposed new development bank for Northeast Asia should appoint its external auditor from the big 4 accounting firms.

3. Functional Currency, Reporting Currency and Capitals

Table 2 shows the functional currency, reporting currency and capitals for the 6 existing banks. Functional currency means the main currency used by a business or unit of a business, while reporting currency means the he currency used in published financial reports.

As shown in table 2, the Inter-American Development Bank (IDB), African Development Bank (AFDB), ADB and The European Bank for Reconstruction and Development (EBRD) indicate that the functional currency of the banks is the Currencies of all its members. It means that

Table 2. Functional Currency, Reporting Currency and Capitals

(Currency Unit: million US$)

Banks	Functional Currency	Reporting Currency	Capital	
			Callable	Paid-in
IDB	Currencies of all its members	US$	100,641	4,339
AFDB		UA	19,458	2,188
ADB		US$	56,640	4,110
EBRD		Euro	14,596	5,198
NADB	US$	US$		405
BSTDB	SDR	SDR	1,400	599

Note: SDR, Special Drawing Right.

these banks operate their business by all currencies of all its member countries. It appears that these banks use the multi-currency accounting system. From the experience of the existing bank, the new bank NEADB should adopt the same policy of functional currency, using the Currencies of all its members.

Regarding reporting currency, we can see US$ for IDB, ADB, and NADB, while EBRD use Euro as reporting currency. Furthermore, AFDB use unique U.A (Unit of Account), while the Black Sea Trade and Development Bank (BSTDB) use SDR as the reporting currency. It appears that these kinds of U.A. and SDR are not familiar with the normal international investors.

The reporting currency of the new bank should be determined, in accordance to the member countries discussion process, however, using of US$ as reporting currency is currently recognized as prevailing and convenient practices to all investors.

Table 2 also shows the capital for existing development bank. Callable capital is somewhat different from the concept of authorized capital. The authorized capital is usually set by the article of incorporation, or charter of the bank, and it means the maximum capital or notional capital to be issued. The callable capital means the capital, which should be subscribed and to be paid by the member countries at any time, upon the bank's request.

Dr. Yamamoto Takashi suggested the proposed 40 billion US$ for initial capital and 400 million US$ as paid-in capital respectively in his paper for the new bank. From the existing developments bank status, Dr. Yamamoto's proposal appears reasonable and will be persuasive to the candidate member countries.

4. Generally Accepted Accounting Principles (GAAP)

Currently, there are two prevailing Generally Accepted Accounting Principles (GAAP) over the world, one is US GAAP and the other is International Financial Reporting Standards (IFRS). US GAAP means the generally accepted accounting principles in the U.S., while IFRS become the world wide accounting standard over the world since 2001, which is initiated by the U.K. It is understood that US GAAP is a kind of rule based accounting standard, while IFRS is principle based accounting

standard. Furthermore, it is said that there is no big difference between two standards, and the harmonization and convergence process have been done over the years.

Currently, IDB, ADB, and North American Development Bank (NADB) adopted U.S. GAAP, while EBRD, AFDB, and BSTDB adopted IFRS. The new bank should determine its accounting standard to be adopted, it appears that the IFRS is more convenient to the investors.

5. Ordinary Capital Resource vs. Special Funds

Most existing developments banks have operated by two channels, i.e. Ordinary Capital Resource and Special Funds. Set forth below is the illustration for special funds:

IDB

- FSO (Fund for Special Operations)
- IFFA (Intermediate Financing Facility Account), IDB Grant Facility)

AFDB

- ADF (African Development Fund)
- NTF (Nigeria Trust Fund)

ADB

- Asian Development Fund,
- Technical Assistance Special Fund,
- Japan Special Fund,
- Asian Development Bank Institute Special Funds,
- Asian Tsunami Fund,
- Pakistan Earthquake Fund,
- Regional Cooperation and Integration Fund,
- Climate Change Fund,
- Asia Pacific Disaster Response Fund

EBRD

- The Balkan Region Special Fund,
- The Baltic Investment Special Fund,
- The Central Asia Risk Sharing Special Fund,
- The EBRD Shareholder Special Fund,

- The EBRD SME Special Fund,
- The EBRD Technical Cooperation Special Fund,
- The Financial Intermediary Investment Special Fund,
- The Italian Investment Special Fund

NADB

- BEIF (Border Environmental Infrastructure Fund)

We can expect that the new bank will also two channels, ordinary capital resource and special funds.

6. Risk Management

From the internal control purpose or accounting purpose, the businesses cycles are classified into three cycle; buying cycle, production cycle, and sales cycle. In case of banking industries and service companies, the business cycle consists of buying cycle and sales cycles. It other words, the business cycle of banking industries consisted of funding cycle and lending cycle. Each funding cycle and lending cycle needs the specific policy, guideline and procedure for the operation.

Because the new bank should perform a sustainable long-term contribution to North East Asian area, the well established risk management tool should be organized. Enclosure is the illustration of loan policy and borrowing policy for other existing development banks:

7. Tax Exemption

All development banks, their property, other assets, income and the operations and transactions it carries out pursuant to the Establishment Agreement are immune from all taxation and from all customs duties in its member countries. Some bank has a individual agreement for headquarters agreement.

The new bank should select the jurisdiction where the tax exemption is allowed to the bank and the bank's officer and employee.

8. Conclusion

We can see that there are two development banks in the northern American area, and two development banks in Europe respectively. As a same reason and logic, the new development bank for North Asia Area should be established in addition to Asian Development Bank ("ADB").

In summary, the new proposed bank for North East Asia Area shall consider following matters based on the preceding development banks' model:

- the new bank should appoint its external auditor from the big 4 accounting firms,
- the new bank should adopt the policy of using the currencies of all its members as functional currency, and US$ as reporting currency,
- the new bank should adopt IFRS as generally accepted accounting principle, and
- the new bank should introduce the well established risk management system.

In addition, the hosting country where the new bank's head office located should allow the tax exemption to the bank and the bank's officer and employee.

References

Inter-American Development Bank. 2010. *Annual Report.*
African Development Bank. 2009. *Annual Report.*
Asian Development Bank. 2009. *Annual Report.*
The European Bank for Reconstruction and Development. 2009. *Annual Report.*
North American Development Bank. 2009. *Annual Report.*
Black Sea Trade and Development Bank. 2009. *Annual Report.*

Appendix: Illustration of Loan Policy and Borrowing Policy for Other Existing Development Banks

IDB

The IDB has multiple sources of protection from the loan portfolio credit risk, including an overall lending limitation, a comprehensive capital adequacy framework, a policy for the treatment of non-performing loans and a policy for the maintenance of a loan loss allowance. The loan portfolio credit risk is determined by the credit quality of, and exposure to, each borrower.

The IDB's Agreement limits the total amount of outstanding loans and guarantees to the subscribed capital, plus reserves and surplus, exclusive of income assigned to certain reserves. Furthermore, the IDB's lending capacity is also limited by its borrowing policy.

The IDB's policy is to limit the amount of its Net Borrowings to the subscribed callable capital stock of its non-borrowing member countries (the United States, Canada, Japan and the other non-regional members).

AFDB

The AFDB manages credit risk at the global country exposure limit (combined sovereign guaranteed and non-sovereign portfolios) by ensuring that in the aggregate, the total country exposure limit to any country does not exceed 15% of the AFDB's total risk capital. The credit exposure on the non-sovereign portfolio is further controlled and managed by regularly monitoring the exposure limit with regard to the specific industry/sectors, equity investments and single obligor. In addition, the AFDB generally requires a range of collateral from project sponsors to partially mitigate the credit risk for direct private sector loans.

In addition to these minimum rating requirements, the AFDB operates within a framework of exposure limits based on the counterparty credit rating and size, subject to a maximum of 8% of the Bank's total risk capital for any single counterparty. Individual counterparty credit exposures are aggregated across all instruments using the Bank for International Settlements (BIS) potential future exposure methodology and monitored regularly against the AFDB's credit limits after considering the benefits of any collateral.

ADB

Article 12, paragraph 1 of the Charter of the ADB provides that the total amount outstanding of loans, equity investment and guarantees made by ADB shall not exceed the total of ADB's unimpaired subscribed capital, reserves, and surplus.

EBRD

For the banking exposures, the Board of Directors approves a Credit Process document that defines the procedures for the approval, management and review of banking exposures by the Operations Committee. The Audit Committee reviews the Credit Process annually and its review is submitted to the Board for approval.

NADB

The Bank's operations are subject to certain limitations outlined in the Charter. The Bank performs periodic evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any one institution. The Bank evaluates the creditworthiness of each customer on a case-by-case basis and continually monitors the financial stability of each borrower.

BSTDB

The Establishing Agreement places a number of institutional limitations on the use of the Bank's capital for its ordinary operations. Treasury investments, comprising the Bank's investment of its capital and those assets held for liquidity purposes, are considered auxiliary to the Bank's ordinary operations. The Bank's institutional gearing ratio, the statutory limit on the total amount of ordinary operations (outstanding loans, equity investments and guarantees) is 150% of the Bank's unimpaired subscribed capital, reserves and surpluses.

Chapter 3

Financing Infra Structure Development in Northeast Asia

A Case for Financing Cross-Border Infrastructure: Russia and Mongolian Resources

Takashi Yamamoto

Issues in Financing Cross-Border Infrastructure Projects

Geography of Mongolia and the Russian Far East indicates the significance of cross-border infrastructure. Natural resources in landlocked Mongolia, as well as inland area in the Russian Far East, could not be promptly transported and exported without good cross-border (or international) railways and highways.

Based on current data of Mongolia and the Russian Far East, there exists a huge capital demand on the infrastructure construction for projects of energy cooperation, natural reserves exploitation, low carbon economy development, energy conservation and environmental protection, logistic and transportation and technology trade. For instance, it is estimated that in next thirty years, the upgrading and renovation of current energy infrastructure in the Russian Far East at least need 150 billion dollar investment. In addition, the major natural gas projects require 100 billion dollars investment, the major oil projects require 20 billion dollars investment, and the hydroelectric system construction requires 8.4 billion dollars investment.

The major cross-border projects feature a large amount of capital and a long investment payoff period. The financing of major cross-border projects is far beyond the capacity of mobilizing the deposit and foreign exchange of one single nation or one certain region. To achieve a high level of infrastructure investments will require substantial transfers of external financial resources to the region. The questions to be addressed, therefore, are how and where financing in the amounts projected as necessary to meet infrastructure investments can be secured. A study

sponsored by the Northeast Asia Economic Forum concludes that financing for infrastructure in Mongolia and the Russian Far East would have to come from three main sources: (1) private sector credits and investments, (2) bilateral official assistance and (3) the existing multilateral development banks (the Asian Development Bank and World Bank). These three sources, however, cannot successfully provide the funds for cross-border infrastructure projects.

First, cross-border infrastructure projects are too risky for the private sector credits and investments. In the long-term strategic perspective, projects have a great profit potential, but low profitability in the short term. Currently, most of the successfully operated large-scale cross border projects are supported by the loans and guarantees of major policy international or regional financial institutions that do not aim for short-term profits. The sole private capitals normally do not have the capacity or will to invest in the major cross border projects independently.

Second, bilateral official assistance is easily affected by domestic and international politics. Japanese financial assistance to Mongolia is politically acceptable, while it is sometimes argued whether Mongolia has strong financial capacity to repay possible loans from Japan. Financial assistance from Japan to Russia with the intention to construct cross-border infrastructure would be politically unacceptable unless territorial issues over the Kurile Islands proceed toward a solution. An issue of financial assistance coordination exists even when all the concerned countries could overcome domestic political issues. They will have to cooperate and decide who pays how much for what activities. Aid coordination is important but difficult task when interests of many countries are different.

Third, it is difficult for the Asian Development Bank (ADB) and the World Bank to provide large amount of funds to cross-border infrastructure projects. These multinational development banks have their comparative advantages in financing and managing these large-scale projects. However, actors who can receive their financial credits and investments are sovereign governments and entities with the government guarantees. Sub-sovereign actors cannot borrow directly from the ADB and the World Bank. Therefore, funds will have to go to Moscow at first before they are delivered to the Russian Far East. A coordination problem would emerge in financing cross-border infrastructure projects at a sovereign level. Concerned governments will have to agree on terms of assistance to a particular cross-border project.

A Solution: The Northeast Asian Bank for Cooperation and Development

The most effective solution to meet this shortfall would be the creation of a new sub-regional development financing institution: the Northeast Asian Bank for Cooperation and Development (NEABCD). The purpose of the NEABCD would be to supplement the capital transfer activities of the ADB, the World Bank, and private and official sources, thereby ensuring a more adequate flow of capital to Mongolia and the Russian Far East for infrastructure development projects.

Since long-term capital available in international capital markets is potentially available to finance the region's projected net capital investment needs, the issue is how to tap these capital resources; that is, how to mobilize and transfer (intermediate) funds from international capital markets to the region. After evaluating the alternatives, it has been concluded that a new financial mechanism must be established that is capable of intermediating long-term capital from international capital markets to Northeast Asia for infrastructure investments. This capital intermediation requirement provides the rationale and the justification for establishing the NEABCD.

The proposed NEABCD would supplement, but would not supplant, the contributions of the exiting multilateral financial institutions (the Asian Development Bank and the World Bank) to advancing the region's economic development. NEABCD financing would be primarily directed to infrastructure projects that would benefit the countries and the region as a whole. The NEABCD would also provide technical assistance in the identification, design, evaluation and implementation of such projects. In addition, the NEABCD would provide technical advice on the preparation and implementation of policies, legal framework, institutions, etc. needed to support and facilitate the region's development. Detailed information on the proposed NEABCD will be written in the Appendix.

Appendix

1. The Feasibility for Establishing the NEABCD

The Basic Credentials are Matured

Currently, the Northeast Asia region is the third largest regional economy in the world and is preceded only by United States of America and European Union. It is also the region with the largest development potential and fastest economic growth among the world. The total foreign exchange reserves rank first in the world. China, Korea and Japan are all major capital-exporting countries. We have the ability of absorbing as well as allocating the financial resource and we have the ability of management.

The Northeast Asia region has formed a network production sharing structure. Resources, capital, technology, production, management, marketing and service are formed robustly. The high dependence between each NEA country has set up a good economic foundation for the mechanism of sharing the mutual benefit and risk and provide the energy for the further regional development.

During the process of overcoming the global financial crisis, Northeast Asia countries have realized that the regional cooperation can never be overestimated. The establishment of the NEABCD is a very objective choice for the economic cooperation and financial cooperation.

The History of the Research and Institutional Supports of the NEABCD

The idea of the NEABCD was proposed in 1991, when NEAEF had its first annual conference in Changchun and Tianjin, China. It was proposed as a Northeast Asian Development Bank (NEADB).

NEAEF promoted the initial research on the establishment of the NEABCD in the following years. In 1997, in the 7th annual conference of NEAEF held in Ulaanbaatar, Mongolia, the proposed bank became a major topic and Dr. Stanley Katz's leading research on this topic draw increasing attentions.

In 1999, the 9th annual conference in Tianjin made the topic more attractive and thereafter, the bank topic was discussed thoroughly in almost every annual conference. Tianjin made commitments on the NEABCD[1] and

1) Please refer to the attachment.

Tianjin became one of the most active cooperative partners for establishing the NEABCD. From then on, Tianjin played a very important role in promoting to establish the NEABCD.

6th Ad-Hoc Committee Meetings were held for establishing the NEABCD in Tianjin, Los Angeles and Honolulu, respectively. On the 4th Ad-Hoc Committee, the so-called NEADB were changed to the NEABCD to avoid the misunderstanding between the ADB and the NEADB.

Under the leadership of the NEAEF and with the strong support from Tianjin Municipal Government, in 2009 the Research Center for Financial Cooperation in Northeast Asia was established at Nankai University, Tianjin, China. Its charters indicate that the purpose and mission of the Research Center is to establish the NEABCD. It is fulfilling its mission now.

The Consensus on the Establishment of the NEABCD

It has been more than 15 years since research began on the establishing the NEABCD under the leadership of the NEAEF. Many conference materials document the each step of progress of the research efforts. Various research organizations from China, Korea, Japan, Mongolia, Russia and the United States have continuously supported and actively participated the research and discussion about promoting the establishment of the NEABCD, Consensus is reached from non-government level that it is necessary and feasible to establish the NEABCD and the time appears ripe to move the Bank proposal forward on a fast-track basis. On that basis, the Bank can be established considerably sooner than had been anticipated earlier.

The China Development Bank, the China Export-Import Bank, the Korean Export and Import Bank, the Japan Bank for International Cooperation are governmental affiliations and can get involved in the research on establishment of the bank.

The idea of the establishment of the NEABCD has already obtained the supports and endorsements form some governments and international organizations. Chinese central government has clearly states that will fully support the research on the establishment of the NEABCD. Many governmental officials in their private individual capacity and researchers from all the countries in the region expressed their supports and the UNDP and Parliament of European Union also sent their representatives to attend the discussions and give full concerns.

China's rising provides more opportunities for the NEABCD. As

discussed in a series of meetings in Honolulu and Tianjin, China has been playing very important role in the world economy and in the Northeast Asia region. China is also willing to make any necessary contribution to the regional economic development and the integration of regional economy. Tianjin, as the financial and economic center of Northern China, provided, is providing and will provide very strong support for the establishment of the NEABCD.

Various Memorandums from recent meetings emphasized the importance of cross-border projects and sustainable development, which is a very important complimentary for the work of the ADB and World Bank.

From the analysis of existing cases, the regional and sub-regional multilateral financial institutions are able to coexist with each other: the European Bank for Reconstruction and Development and European Investment Bank in Europe; the Nordic Investment Bank for the development of the Nordic countries; and the Inter-American Development Bank for Latin American and Caribbean countries.

2. Purpose, Character, and Principle of Northeast Asia Bank for Cooperation and Development

2.1 The Purpose - To Promote the Sustainable Development of Northeast Asia Region

The NEABCD will put priority on large scale cross border infrastructure construction, energy and natural resources development, energy-saving and emission-reduction, low carbon economy, environmental protection and promotion of intraregional trade and investment and meet the continuously capital demand of middle income country or country which gradually stepping into the middle income level.

2.2 The Character Sub-regional Multilateral Policy Bank

The NEABCD will accept capital contribution of Northeast Asian nations' policy banks with governmental background and allocate the investment capital through policy-oriented operation.

2.3 Capital Scale · Proposed 40 Billion Dollars for Initial Capital

2.3.1 The Total Capital Amount

The current practice of the multilateral financial institutions is to take the total GDP amount of the area as the chief reference to fix the total capital amount, i.e. to fix the ratio of the bank's capital amount to the total GDP amount of all countries in the area. In our case the capital amount of the NEABCD will be mainly determined by taking reference to the GDP amount of all countries in Northeast Asia, while the investment demand in the region and the orientation of the NEABCD will also be considered.

With regard to the following such as the total GDP amount in Northeast Asia, the current practice of the capital amount determined by the membership countries of multilateral financial institutions, the tremendous investment requirement in Northeast Asia, and the Bank's main objective of supplying fund to the basic facilities construction in the region, we consider to set the ratio of the NEABCD's total capital amount to the GDP amount of all countries in Northeast Asia as 0.5%. Therefore, the NEABCD's total capital amount will be USD 40 billion.

2.3.2 Subscription Approach

The equity of the NEABCD is composed of paid-up capital and uncalled capital. The paid-up capital, which is the actual capital every member country contributes, is the original capital when the NEABCD starts to operate; while the uncalled capital is a back-up fund which will not be paid unless the NEABCD meets with some emergencies or operation crises.

In order to design the paid-up capital ratio, we must not only draw the experience from other multi-lateral institutions but also take the financing needs and the economic strength in Northeast Asia into account. The following table shows the paid-up and uncalled capital ratio of the major multilateral institutions.

The NEABCD's main objective is to supply fund for basic facilities construction in Northeast Asia. These projects generally need huge amount of fund and take many years, thus the paid-up capital by the membership country should be as much as required. In addition, with regard to the economic strength of every member country, the paid-up capital ratio will be set as 10%.

With the economic development and increasing financial demand, the

NEABCD could gradually increase the capital and stock.

Table 1. The Paid-up and Uncalled Capital Ratio of the Major Multilateral Institutions

Bank	Paid-up Ratio	Uncalled Ratio
World Bank	20%	80%
Asian Development Bank	7%	93%
European Development Bank	30%	70%
American Development Bank	4.3%	95.7%
Nordic Investment Bank	10.1%	89.9%

2.4 The Principle of Share Allocation - Considering All Aspects of Northeast Asia.

The Northeast Asian countries are the major shareholders with a controlling stake. The non-regional countries and international financial institutions can also take part in the NEABCD. The share allocation of every Northeast Asian country could refer to every nation's GDP, foreign exchange reserves, foreign trade volume and their relevant growth rates, using the synthetically weighting method.

2.5 Selection of Headquarter - Consider the Efforts and Credentials from the Candidates

Selection for the Headquarter of the NEABCD should reflect the efforts and credentials from the candidates that could be from any country in the region. The headquarters of the NEABCD should be located in the Northeast Asian region and must meet the following requirements: capabilities for both domestic and external financing expansion, effective channels of international transportation and communication, low cost operational environment, and ability to provide high quality offices, living accommodations, educational facilities and feasible logistic services. According to the convention of multilateral financial institutions, the headquarters should have strong policy support from both central and local governments of whereabouts.

In China, Tianjin is proposed to be the headquarter place for its previous efforts and economic development and potentials. Tianjin

municipal government is committed to provide an office building for the NEABCD. Tianjin is also committed to providing convenient working and living conditions such as health care and education facilities for children for the NEABCD staff and officers. Prefecture of Niigata in Japan officially shows interest to invite headquarter of the NEABCD to City of Niigata.

2.6 Selection of Chairman of the Board and President of the NEABCD

After the site selection of bank headquarter, considering the benefits of the headquarter-located country and the other countries, shareholders will select the Chairman of the board. The president of the bank will be recruited through a world wide open selection, and adopt the fixed-tenure appointment system

Towards an Integrated Regional Logistics System

Satoshi Inoue

1. Introduction

Globalization has brought about both considerable increases in maritime trade and structural changes in freight transport. This paper will first provide an overview of the recent trends of maritime trade and then discuss how seaports in the world have coped with such changes. It will further discuss fundamental impacts of global logistics systems to ports. Finally, with these changes in mind, it will propose to develop an integrated regional logistics system for the future of North East Asia and explore key strategies and projects for the region. Discussed in this connection is a paradigm shift in globalization emerging from the current economic crisis and also increasing opportunities for public-private-partnership for the regional logistics systems.

2. Globalization and Maritime Trade

While the world economy is yet to overcome the global crisis, the world maritime trade has returned to the previous level. Over the last three decades, it had been growing at unprecedented rates up to the first half of the year 2008. As the economy was rapidly globalized, maritime trade had more than doubled from 3.7 billion tons in 1980 to 7.9 billion tons in 2007, in parallel with the growth of the world GDP during the same period, as shown in the right slide.

When looking at the container traffic, which transports today virtually all kinds of final products as well as intermediate parts and even almost all fruits and vegetables, the traffic growth was simply sky-rocketing. It had grown up as much as 13 times, from 37 million TEU in 1980 to 481

million TEU in 2007.

As a matter of fact, globalization could have not been materialized without efficient and reliable networks of shipping and ports around the world. Goods people use for their daily life are shipped from all over the world and people take it for granted that their needs can be met in a wink. No questions are raised as to how these goods are transported to the houses and work places from very distant parts of the world.

More than 90% of goods are moved by shipping through a global network of ports. Indeed, our modern lives would have been totally different in the absence of efficient and sustained maritime transport and port networks.

3. Port Expansion, Containerization and Institutional Reform

To cope with such tremendous increases in demand, ports in the world have undertaken large-scaled expansions and improved terminal productivity over the years. It was also of vital importance for the world's ports to safely accommodate ships of ever increasing sizes and make their turn around time shorter. Ports also have gone through a number of technological, institutional and business model changes.

All required innovative and bold approaches to work out effective solutions for such challenges. Among them, introduction of containerization has totally changed cargo handling systems in port and dramatically increased terminal efficiency. Also noteworthy was the progress in port reforms both in developing and developed countries. Many ports successfully transferred their terminal operations to private sectors, enhancing their port productivity.

More recently, quite a few maritime countries, especially in Europe, have corporatized their port authorities, providing them with greater autonomy in port management so that ports could be run more efficiently in a business-oriented manner and meet demands more effectively in the ever-changing market.

Today, though in the midst of the global recession, ports are busy deepening channels, developing new facilities and also improving efficiency. We all know that it was only a few years ago that ports around the world suffered serious congestion due to insufficient capacity to handle cargo demands. Therefore, unless ports invest now based on their long

term plans and strategies, they are quite likely to become bottleneck once the economy gets back to normal.

4. Supply Chain Management and Port

Importantly, globalization of the world economy has not only brought tremendous increases in cargo volume, but also fundamental and structural changes in the freight transport, leading to "global logistics system". As goods are transported globally over long distances, often even from the other side of the globe, it is getting critical to optimize the total logistics chain as a whole rather than each segment of the transport chain. Not only cost and time involved in transport, but also predictability and traceability of goods in transport are of critical importance for the supply chain management.

For instance, the World Bank evaluates the logistics performance of each country based on a set of the following six factors.

- Efficiency of the customs clearance process
- Quality of trade and transport related infrastructure such as ports, railroads, roads and information technology
- Ease of arranging competitively priced international shipments
- Competence and quality of logistics services such as transport operators and customs brokers
- Ability to track and trace consignments of international shipment
- Credibility and timeliness, meaning the frequency with which shipments reach the consignee within the scheduled or expected time.

Therefore, no matter how a port improves the efficiency of its terminals, it would not be fully appreciated in the market any more, unless efficient shipping services and hinterland connectivity are satisfactorily provided. In other words, being an important but single element of the entire supply chain system, seaport today has to be planned and developed in a perspective of "port beyond port".

5. Transforming Ports into Logistics Centers

In response to this market's change, major ports are now re-orientating their strategies to transform themselves into integrated logistics centers from a mere interface between shipping and land transportation. This is a fundamental departure from the traditional concept or business model of a sea port.

In the new model, ports aim to become a central place to create logistics value added as well as to provide efficient and reliable supply chain to hinterland markets. Ports need to be a gateway to major logistics corridors to hinterlands.

For this purpose, ports are now developing advanced container terminals, far-efficient and automated, and logistics parks in and around the port area. Furthermore, ports are working hard to develop multi-modal access to their hinterlands and promote modal shift from roads to rails and inland waterways, which is more environmentally friendly. At the same time, information system is also provided as a key infrastructure.

Needless to say, many of these projects cannot be effectively materialized either by port authority alone or a private company. Instead, they can be more successfully implemented with close collaboration of all players of a port community. Partnership between pubic and private sectors is essential for a port to transform into a logistics center and to develop reliable supply chain corridors. A wide variety of opportunities for new-type project financing are now identified around the world.

6. Developing the Regional Logistics System for Northeast Asia

Now turning to North East Asia, a fundamental change is a considerable increase in intra-regional economic activities. It has significantly developed in recent years and will continue to develop in a foreseeable future. In fact, container cargos moved within East Asia is now growing faster than those between East Asia and Europe as well as those between East Asia and North America. Container vessels for the intra-regional trade are increasing in size and speed.

However, logistics system of North East Asia is far from integrated and efficient to support such intensified intra-regional trade. For instance, a number of institutional barriers still exist in this region, such as no mutual

recognition of authorized vehicles and driving, no coordination of supply chain security and lack of regional port information system. To help North East Asia to further grow and intensify economic inter-dependence, indispensable is a much more integrated and advanced regional logistics system with great efficiency, transparency and innovation.

There are pressing needs for efficient and reliable supply chain under the current recession and perhaps even more so after this economic crisis. Some of leading manufacturing companies are already re-aligning their logistics systems into more simple and compact ones with production moving much closer to consumption. Under such a new paradigm of "New Globalization", the regional logistics system will play further more critical role for development of any region, including the North East Asia. Unlike Europe or North America, however, North East Asia is inter-connected by sea, which is one of most valuable resources given to this region. Therefore, logistics systems based on the networking of seaports and shipping should play a central role for North East Asia. Connectivity through seas is a key to the future of this region. This will also contribute to reduction of CO2 emissions from logistics activities when comparing with other modes of transport.

To this end, four subsystems should be developed in coordination as shown in this slide, namely terminals, linkages and networks, information systems, and cross border systems. Advanced terminals should be developed at seaports, airports, and along railroads and highways. Linkages and networks are critical, in particular, sea-links within the North East Asia region. More specifically, the following four key projects should be given a high priority:

a. Advanced terminals
   In particular, major ports need to be equipped with technically innovative, efficient and environmentally friendly terminals. These terminals should also be effectively connected to highways, railways, short-sea shipping and inland waterways.
b. Maritime shuttle networks
   To establish maritime linkages throughout the region, networks of point-to-point marine shuttle services should be developed between all major ports of the region. The marine shuttle service provides direct, regular and frequent shipping services, most likely by RORO, ferry and container vessel.

c. Corridors to landlocked/inland countries and cities

Geographically, North East Asia is a burst region with a number of inland cities in China and Russia and landlocked countries such as Mongolia. In order to effectively integrate them in the regional logistics system, regional corridor projects connecting these cities to gateway seaports need to be implemented with a top priority.

d. East-Asia Logistics IT System

For efficient and seamless logistics system of the entire region, it is essential to develop a regional IT system, which facilitates online processing of port entry as well as customs clearance. While Japan, China and Korea have already developed their own respective systems, they are neither connected, nor compatible with each other yet. For the supply chain security of the region, mutual recognition of AEO (Authorized Economic Operator) systems should be undertaken as quickly as possible.

7. PPP for Regional Logistics System

Development of the regional logistics systems for North East Asia requires close cooperation between governments of the region, and also between governments, public agencies and private sectors. In particular, public agencies and public corporations of the countries will play a pivotal role to effectively coordinate all the players involved in the respective projects.

With high priority and urgency, the governments of the region should work jointly to facilitate smooth border crossing and supply chain security within North East Asia. It provides a basic foundation for furtherance of economic development of the region. On top of this, free trade agreement of North East Asia will accelerate to intensify economic inter-dependence and integration of the region.

At the same time, the private sector should also play a critical role. A number of projects such as advanced terminals, marine shuttles and IT regional systems are good candidates for public-private-partnership (PPP) undertakings. As the North East Asia logistics system is essentially based on maritime networking, port authorities of the region are expected to play a leading role to materialize such PPP projects.

8. Conclusion

Economy of North East Asia is rapidly growing with intra-regional trade being developed at tremendous rates. Further economic inter-dependence and integration of the region will take place through seas, which are a unique resource endowed to this region. For the future of this region, therefore it is essential to develop more integrated and advanced regional logistics system, largely based on the network of seaports of North East Asia. All the parties of the region, such as national/local governments, customs, port authorities, transport companies and global manufacturers, should work together closely.

Acknowledgement

The author would like to express special thanks to the NEAEF organizing committee, in particular Dr. Lee-Jay Cho, for kindly inviting him to this forum.

References

Brooks, Mary, R. and Kevin Cullinane eds. 2007. *Devolution, Port Governance and Port Performance.* Oxford: Elsevier.

Cass, Sydney. 1998. *World Port Privatization.* London, Cargo Systems.

Inoue, Satoshi. 2007. "Global Logistics and New Challenges for Ports, in Commonwealth Secretariat." *Commonwealth Ministers Reference Book 2007.* London: Henley Media Group Ltd.

United Nations Conference on Trade and Development. 2009. *Review of Maritime Transport.* New York: UN Publications.

World Bank. 2010. *Connecting to Compete 2010-Trade Logistics in the Global Economy.* Washington, DC.

Korea - Financing Plans for the Development of Northeast Asia

Jai Min Lee

1. Introduction

Since entering the 21st century, Northeast Asia has emerged as the most dynamic market in the world. Boosted by its two-decade-long high growth, the Northeast Asian region accounts for over 20 percent of the world's total GDP. Also, its mutual cooperation potential is greater than that of other regional economic blocs. Such factors as Japan's advanced technologies and capital, South Korea's production technologies and development know-how, China's abundant labor force and vast market, North Korea's low-cost labor force, Russia's natural resources and science technologies, and Mongolia's natural resources enable the region's economies to complement one another very well. When these strong points are well combined, this bloc could develop into a very powerful regional economic community. Nonetheless, the difference of economic systems and levels among countries in the bloc is quite big, and some countries are short of infrastructures, failing to maximize the realization of economic cooperation.

Accordingly, the development projects within the Northeast Asian bloc, including infrastructural improvement and the economic development of less developed regions, should be preceded in order to develop Northeast Asia into an economic cooperative body such as the EU and NAFTA. Such development projects require not only massive funds, but also support from international financing. However, the inflow of global capital into the region has been delayed due to the relatively high investment risk and political concerns such as the North Korean nuclear issue.

This means that the development of the Northeast Asian region, which has the biggest development potential in the world, lies in boosting the

region's development financing, despite of some bottlenecks in the area. The purpose of this study is to find effective ways to utilize the development financing of Northeast Asia. Firstly, I would like to seek financial sources of Northeast Asia's development financing and their availability, and then suggest desirable financing schemes under the current situation and for the future.

2. Need for Development Financing in Northeast Asia

Major projects to be preceded to promote the economic cooperation in Northeast Asia include rebuilding of old-fashioned infrastructure, joint energy development, and support toward less developed regions in the bloc and North Korea's economic reform.

2.1. Infrastructural Construction of the Northeast Asian Region

Economic cooperation in Northeast Asia should start from infrastructural construction. This is because without infrastructure construction, market creation is impossible even if borders are removed.

The core of infrastructural construction is the establishment of transportation and telecommunications networks including roads, railways, harbors, etc. In the Northeast Asian region, cargo transportation has not been carried out smoothly owing to the shortage of inland transportation and harbor facilities. For instance, when the Trans-Korean Railroad (TKR) is built and linked with the Trans-China Railroad (TCR) and the Trans-Siberia Railroad (TSR), the cargo transportation system in the bloc would achieve epoch-making development.

The connection of the TKR, TCR and TSR would play a role as a land bridge, linking Asia and Europe. Also, it would swiftly expand the movement of materials and human resources in the bloc by linking the East Sea economic bloc and the Yellow Sea economic bloc simultaneously.

At the same time, the TKR would bring about a sharp rise in the flow of materials into North Korea and its transportation income, improving the country's economic conditions. It would also greatly contribute to accelerating North Korea's economic reform. In the meantime, if Russia actively pushes for development of energy resources in the future, the traversing railroad would be used as a key means to transporting them,

along with the marine transportation means.

The construction of transportation and communications networks is a multinational project passing across many borders. Such a multinational cooperative project could be propelled effectively when multinational development financing is supplied smoothly.

2.2. Creation of the Northeast Asian Energy Community

Considering the rapid economic growth of Northeast Asian countries and a sharp rise in energy consumption, securing a stable source of energy is a very important matter for all countries in the region. South Korea and Japan import oil and natural gas for 100 percent of their consumption. China also depends on oil imports for about 40 percent of its consumption, and the import dependency ratio is expected to go up to 70 percent in 2020.

Many countries in the bloc, including South Korea, Japan and China, have been dependent on the Middle East for most of their energy imports, paying high costs for energy transportation. Consequently, in the case of crises such as the Middle East war, securing stable energy may reach a deadlock. Accordingly, it is urgent for the Northeast Asian countries to build a 'Northeast Asian Energy Community', which pushes for multilateral development of energy for joint production and consumption. For instance, if South Korea, China and Japan build a system to jointly develop energy resources in Russia for common consumption, all countries in the bloc would gain much more economic benefits.

Russia, with a huge amount of oil and natural gas, has been regarded as the main energy supplier to Northeast Asia in the 21st century. Related to the development of energy resources, the Sakhalin State has been pushing ahead with the Sakhalin I-VIII projects to develop oil and natural gas on a continental shelf and supply them to neighboring consumer countries, including South Korea, China and Japan. It also propels construction of oil pipelines and natural gas pipelines. When the pipeline network is completed, South Korea, China and Japan will be able to receive natural gas from the neighboring country in a stable manner. In fact, the construction of gas pipelines traversing South Korea, North Korea and Russia have been discussed among three countries.

To make the construction of an energy integration system a success, a massive scale of substructure, such as construction of roads and harbors

necessary for the transportation of products in the region should be made, in addition to the construction of pipelines. This, however, requires a vast amount of development funds, and the development region covers many countries. Accordingly, the energy development should be driven jointly by many countries in the region.

2.3. Joint Development in Less Developed Regions in the Bloc

Three provinces in the northeastern part of China are districts in which the heavy and chemical industry, including steel and petrochemical, has been developed based on affluent natural resources. Since the economic reform of China began, however, the provinces have fallen far behind other regions in terms of industrial competition owing to the ineffectiveness of state-run companies and conventional facilities.

Of the three provinces, Heilongjiang Province is located in the far east of the transcontinental railroad linking Europe and Asia. As its trade with Russia accounts for over 50 percent of the total trade, Heilongjiang Province is likely to activate its regional economy in the future, in line with the propulsion of natural resources development in the far east. Meanwhile, Jilin Province is located in the inland region of China, bordering Russia and Mongolia. Its population is the smallest among the three provinces, and it is less developed than the other two provinces, with the agricultural portion falling behind China's average. Despite such shortcomings, it has a great potential for economic development, thanks to the development projects of the Tumen River region and Hunchun economic region in the border of North Korea and Russia.

The far eastern region of Russia, including East Siberia, is rich in various natural resources, including oil, natural gas, coal and lumber, but its development has been delayed due to the excessive concentration of the Russian government's development policy on the western region. Russia has two plans in relation to the development of this region. One is to develop oil and natural gas in the region and supply them to Northeast Asia through pipelines. And the other is to bolster its role as a land bridge by promoting the effectiveness of TSR's container cargo transportation. The implementation of the plans will strengthen the economic cooperation between Russia and Northeast Asia in terms of trade and joint development of natural resources, making Russia's far eastern region into the central axis.

Mongolia is a low-income country with per capita GDP of less than $2,000. Its industrial structure is pre-modern with its primary industry, including agriculture, accounting for 45 percent of the GDP. However, Mongolia has rich natural resources, including coal, gold and copper with huge development potentials. Considering that the transportation distance of the line passing through Mongolia is the shortest among all railroads traversing Eurasia, Mongolia is expected to play an important transportation role in Asia.

2.4. Support for North Korea's Economic Reform and Market Economy

Northeast Asia holds significance in terms of international security and global peace, not to mention the economic aspect. Since the end of the Cold War era, the Korean peninsula is the only region in the world where military tension remains and interests of the world's superpowers with different political systems, including the U.S.A, Japan, China and Russia, conflict one another.

To solve the North Korean nuclear issue, six countries - South Korea, North Korea, the U.S.A, China, Japan and Russia - are participating in multilateral negotiations. As can be seen, peace on the Korean peninsula is vital to the security of neighboring countries and maintenance of global peace. To place stability and peace on the peninsula, we should let North Korea participate in the activities of the global society, and achieve economic prosperity. In fact, this is the most important task to be solved in the economic bloc of Northeast Asia.

On the other hand, North Korea is regarded as the only region in the world, which has been left underdeveloped, which means that the shortage of infrastructure in the nation is so severe and that the development of its infrastructure is urgent. Accordingly, the injection of development financing into North Korea will lead to the North's economic growth and transition to market economy, improving the nation's economic level, and ultimately serve as a catalyst for the establishment of peace and stability on the Korean peninsula.

Since South Korea is a concerned party for the peace on the peninsula, it is expected to shoulder a considerable portion of expenses for the economic development of the North. Nevertheless, as South Korea alone cannot bear all of the expenses, multinational cooperation is essential.

As the easing of the tension on the Korean peninsula is directly linked

with the security of the entire Northeast Asia, not only the relevant countries including Japan and China, but also the USA and Europe have an obligation to share the expenses for the security of Northeast Asia. As a result, offering development financing to North Korea should be dealt as an international issue.

3. Financing Plans for the Development of Northeast Asia

3.1. Availability of Financing Sources for Development Projects

Funds necessary for physical capital investment can be mobilized through various means according to levels of economic development, and the financial and capital markets of the countries in the region. Nevertheless, China, Russia, North Korea and Mongolia, all of which need development financing, cannot afford to mobilize development funds through domestic channels due to the tight government budget and less advanced domestic capital market. Accordingly, most of the development funds need to be supplied from outside. The funds could be classified into private and official financing sources, and bilateral and multilateral financing, based on the fund provider.

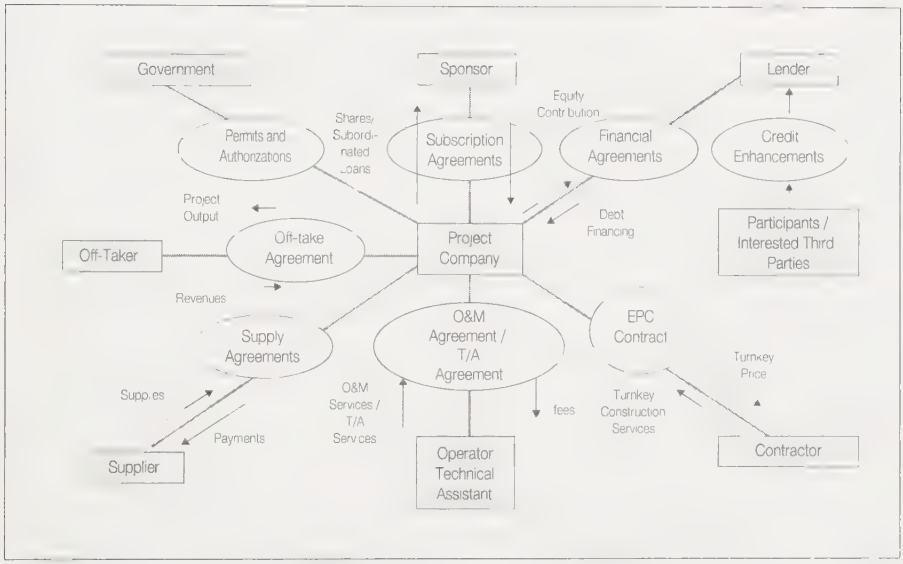
3.1.1. Private Financing Sources

The recent fund flow into the developing countries has been led by the private sector. Owing to the weakness in the finance sector of the developing countries and a rapid growth of global financing market, private capital's participation in the development project of the public sector, which was propelled by public fund in the past, has been on a fast rise. Public-private partnership (PPP) can be considered for the construction of infrastructure in the Northeast Asian region. For example, a government grants a concession of defined and limited duration to private sector sponsors to build a project, hold an ownership position in it, and operate the project for the life of the concession. Then, the project ownership transfers to the government at no cost after the concession term. Project finance (P/F) techniques could be employed to encourage private financiers to interest themselves in those projects.

P/F refers to financing that uses the cash flow created in a relevant project as a financial resource to make repayment of the funds injected into the project. If the profitability of the project is recognized, it can

mobilize huge amounts of funds, regardless of the credit status of the project-propelling country. The development financing by the P/F project is very attractive in terms of securing vast funds without the government's debt guarantee. (The structure of the financing is as indicated in figure 1.)

Figure 1. Basic Structure of Project Finance



As a reference, Box 1 shows an instance of the project structure supported by the P/F scheme in Northeast Asia.

Private capital participation in the P/F project depends on the prospects for the investment profit rate and project-related risks. Investors and lenders place most emphasis on the secure withdrawal of invested funds. Consequently, political stability, rational legal systems, and project feasibility becomes important factors for participation in the project. In particular, the project-propelling government should guarantee in a form of contract that it would protect investors and lenders from possible risks stemming from the project completion and post-operation. As the P/F project is led by a number of parties concerned based on various contracts, it will be successful in the long term only against a background of solid

rules, regulations, and policies.

In this regard, it is difficult to expect active participation of the private sector in the P/F projects for the Northeast Asian development at the moment. North Korea, Russia, Mongolia and even China of the Northeast Asian region do not provide enough legal and institutional apparatus for the private investors and lenders to participate in the P/F projects. Virtually the P/F projects in Russia, which were supported by international investors and lenders in 2010, accounted for merely 2.2 percent of the total global P/F projects. Even if the governmental support were to be provided by North Korea, it might not be readily acceptable to foreign private investors and international lenders due to the political and institutional risks. Thus, for now, the use of the P/F project is likely to be confined to a few profitable projects such as the energy resources development and railroad projects, which could be promoted in China and Russia.

Box 1. Project Structure Example for P/F in Northeast Asia

- Objective of Project: Construction of a toll bridge and roads linking Hunchun, China and Najin, North Korea
- Project company: Tumen River Development Co.
- Total construction cost: $500 million (to mobilize $100 million from investment and $400 million from borrowing)
- Sponsors: Jirin Provincial Government (Chinese side), the Najin, Sunbong External Economic Cooperation Committee (North Korean side)
- Internal investment: Sponsors from China and North Korea will make investments in kind equivalent to 24.5%, respectively (invest in construction of roads and bridges with steel reinforcing, cement, and others)
- Foreign capital: 51% (investment by a South Korean construction company and a Japanese trading company)
  *Setting the foreign capital ratio at 51% is designed to secure a decision-making right in withdrawing invested funds with project profits.
- Financial resources for redemption: Revenues from road and bridge tolls
- Ownership: The bridge shared by China and North Korea, and the roads in North Korea by the North Korea
- Tumen River Development Co. should take responsibility for the construction and management of roads, and hold a right to collect tolls. This should be clarified in a contract.
- Fund mobilization: Foreign-controlled banks having diplomatic relations with North Korea, and financial institutions in South Korea, China and Japan should create syndicate loans.
- Cash flow management: Establishment of escrow account in a third country

Table 1. P/F Projects Propelled in China and Russia

(Unit: US$ million)

	2000	2002	2008	2010
China	-	3,842	3,579	10,400
Russia	2,077	193	5,358	7,930
Global	110,885	62,172	320,500	354,600

Source: Project Finance International League Tbles (2000-2010).

3.1.2. Official Financing Sources

As previously mentioned, there are a lot of political, social and institutional issues in Northeast Asia. These issues tend to become an impediment to private participation in projects if not addressed properly. Unless these critical issues are resolved or at least managed under controlled circumstances, it would be difficult to raise private capital. Since it will take some time for many private investors and lenders to be interested in the projects located in this area, the official financing sources will have to play an important role for a while.

Among external financing from official sources used by developing countries are bilateral official development assistance (ODA), official export credit, and assistance from multinational development banks (MDBs).

① Bilateral ODA

Bilateral ODA is a concessional loan that the government of a developed country provides to the government of a less developed country for the purpose of helping the latter's economic development. It supports a non-commercial project at more favorable terms and conditions than general borrowings for economic cooperation with the developing country. It carries a long-term repayment period of over 20 years at a low annual interest rate of 0.1 to 1%.

Accordingly, ODA has been used chiefly by low-income countries that cannot attract commercial loans from the international financial market as major financial resources for development. At present, the Development Assistance Committee (DAC) of the OECD recommends that its member countries offer ODA to developing countries up to 0.7% of the GDP, but the average ODA amount of OECD member countries reaches 0.22% of GDP.

In the Northeast Asian region, Japan and South Korea are donors, and Mongolia and North Korea are beneficiaries. The international norm calls

for ODA to be offered to low-income countries with per capita GDP under a certain level. As a result, Russia has lost its status as a beneficiary to receive ODA, and the extension of ODA to several provinces in China with high incomes has virtually been suspended. As for North Korea, South Korea and Japan extend grants only from the humanitarian aspect. Instead, China and Russia are known to have offered development assistance to North Korea. Considering that Japan is the second largest donor in the world, it will be able to provide a large amount of ODA to North Korea when the diplomatic relationship between the two countries improves. South Korea assists the economic development of North Korea through the Inter-Korea Cooperation Fund (IKCF). The IKCF offers several types of loans for cultural activities, sports, economic cooperation, etc.

Table 2. ODA Extended by South Korea and Japan in 2010

	ODA (US$ million)	ODA/GNI (%)
Japan	11,045	0.20
South Korea	1,168	0.12

② Official Export Credit

Most of advanced countries operate an official export credit agency (ECA) to support their exports. ECAs are chiefly supporting projects that most commercial banks avoid due to high risks and low profits. They provide financial assistance to their respective nations' exporters or investors who participate in overseas projects for the construction of large-scale plants and infrastructure, and the development of natural resources. This implies that an ECA's financing greatly contributes to the economic development of the recipient country. This is why the WTO does not regard an ECA's financing as an export subsidy.

In general export credit has been made in the form of loans, guarantee or insurance. By covering the political risk, ECAs encourage commercial banks to participate in projects. Political risks traditionally refer to confiscation, currency inconvertibility, revolution or social unrest. In addition, government actions to create political risks could include terminating concession or imposing taxes or regulations on the project, which severely undermines the project's value. Political risk coverage will make it desirable for the projects to be located in Northeast Asia. ECAs apply a market interest rate, and carry long-term repayment period of over

10 years in some cases. Compared to bilateral ODA, ECA financing is somewhat unfavorable in terms of its lending conditions, but it can assist a large-scale project and there is no requirement for the countries entitled to receive the funds.

ECAs have conducted financial activities in Northeast Asia. JBIC of Japan and U.S. Eximbank have been actively participating in Russia's energy resource development project. Korea Eximbank is also providing loans to natural resources development projects and investment projects in China and Russia.

However, since ECAs are financing the projects in which exporters or investors of the home country are participating, recipient countries face some restrictions in purchasing the goods and services related to the projects.

Table 3. Official Export Credit[1] of Japan and South Korea

(Unit: US$ million)

	2007	2008	2009	2010
Japan (JBIC) 2	30,509	27,772	31,448	15,490-
South Korea (EXIM)	42,617	44,737	47,794	56,494-

Note: 1. Loan, equity and guarantee.
2. FY2010 is 2010. 4~2011. 3.
Source: Annual reports of each bank.

(3 Financing from Multinational Development Banks (MDBs)

Multinational Development Banks (MDBs), including the World Bank, the ADB and the EBRD, have made significant contribution to the development of the public sectors of developing countries. The World Bank extends loans to all countries in the world, the ADB chiefly to Asian countries, and the EBRD mainly to Europe, Russia and CIS countries. MDBs are financing large-scale projects with contributions from member countries and borrowings from global financial market. In addition to loans, they are offering technological assistance, such as project feasibility study and training, with their rich development experiences and know-how. In particular, projects that have involved many countries, such as the construction of natural gas pipelines or traversing railroads, have been led by MDBs.

Meanwhile, as MDBs maintain high credibility worldwide, commercial banks tend to actively participate in the projects supported by MDBs. Even

if projects accompany acceptable risks and profits, private investors and lenders need time to build knowledge and confidence in a new frontier country of emerging markets. Under such circumstances, the presence of MDBs provides significant support and assurance to private investors and lenders.

Nonetheless, the scope of assistance by the institutions is very broad and they have already spent a considerable amount of funds. Accordingly, it seems that it is difficult for these institutions to assist in meeting the massive demands for new development projects in the Northeast Asian region. For Northeast Asia, the existing MDBs have approved only a few projects to date, which is far short of the magnitude required to meet the infrastructure development needs of the sub-region. China and Russia are major borrowers of the ADB and the EBRD, respectively, but the northeast regions of these countries have not enjoyed a priority in the development agenda of their own central governments. Moreover, North Korea is not a member of any of these institutions.

Table 4. Trend of Credit Commitments by MDBs

(Unit: US$ billion)

	2006	2007	2008	2009
World Bank	23.6	24.7	24.7	46.9
ADB	8.2	11.0	11.3	16.1

Note: Grants included.
Source: Annual reports of each bank.

④ Establishment of New MDBs within the Region

In relation to the utilization of MDB financing, there have been many debates over the necessity of establishing a new institution, called the Northeast Asian Development Bank (NEADB), exclusively for the Northeast Asian region. As previously mentioned, Northeast Asia has practically been neglected by the existing MDBs. The absence of a catalytic role played by the MDBs delayed the private investment flows into this region. As a result, there is a pile of financing needs that have yet to be met. This is the rationale behind the establishment of NEADB. A specialized institution which is committed to the development of local private sectors and infrastructure in the Northeast Asian countries would be in a position to develop expertise on the local conditions, and to effectively handle the local governmental and regulatory issues. The NEADB would help break

the vicious circle and provide a momentum to start a virtuous circle of a sound regulatory framework, additional development financing, infrastructure facilities, investment flows, and economic development and integration.

There has been an argument that establishing a special fund within the ADB is more effective than establishing a separate institution. They insist that this brings a merit of preventing unnecessary spending stemming from the duplication of businesses, lack of experience, and the limitation of the developing countries in absorbing funds.

The problem, however, lies in the fact that the ADB cannot satisfy Northeast Asia's massive demands for development funds with its limited credit capacity. The ADB, with a paid-in capital of $4.25 billion, has outstanding debt of $51.8 billion at the end of 2010, equivalent to 12.2 times the paid-in capital, from the global financial markets. Thus it is not easy to create additional multiplier effect on fund mobilization. Also, the special fund cannot produce a multiplier effect in mobilizing funds since it has no borrowing. In contrast, the NEADB can fulfill a financial function equivalent to that of the ADB in the global financial market and act as a new catalyst to attract global investors to Northeast Asian projects. Meanwhile, among the main targets of Northeast Asia's development are North Korea and the far eastern region of Russia. Yet, they are not eligible to receive ADB loans since they are not ADB members.

The establishment of the NEADB was initially proposed by South Korea's former Prime Minister Nam Duck-Woo at the second Northeast Asia Economic Forum in 1991. Since then, discussions on the founding of the NEADB have continued for over a decade, but failed to produce concrete plans.

There are several problems behind such delay. Firstly, there are vast differences among the countries of Northeast Asia in terms of their history, politics and economy. Accordingly, blueprints for NEADB have not been shared within the region from an integrated viewpoint.

Secondly, Japan and the U.S. have not been positive toward the NEADB as they are concerned about the possible damage to their influential power over the region. Thirdly, North Korea's nuclear issues remain. North Korea has no diplomatic relations with Japan or the U.S.A, and the nuclear issues have not yet been settled. Accordingly, it is difficult for the NEADB, whose one of main businesses would be providing assistance for the development of North Korea, to gain support from these

two influential nations.

As such problems are unlikely to be solved at an early date, the chance seems to be slim for setting up the NEADB in the near future. However, if the North Korean nuclear standoff is resolved in a moderate manner and international discussions on the assistance toward North Korea are made in earnest, the establishment of the NEADB could be achieved earlier than expected. Accordingly, there is a need to start government-level discussions on the founding of the NEADB.

3.2. Effective Means for Utilizing Development Financing in Northeast Asian Economies

Various types of development financing mentioned above will apply differently to each of the Northeast Asian regions according to the economic level, system and structure. And the projects involved in multiple countries should seek the financing schemes suitable for them. With these factors in mind, we can consider the following methods for utilizing the Northeast Asia's development financing.

3.2.1. Combination of Private Financing and Official Sources

Development financing to be provided to the Northeast Asian region will be differentiated by each of the project-propelling countries and projects. Out of these six, North Korea and Mongolia would be classified into the lowest-income countries and China and Russia into general developing countries. The projects could be divided into either commercial or public, depending on their profitability. In this regard, the appropriate types of development financing are suggested as follows according to the project-propelling country and the project's characteristics.

Table 5. Types of Development Financing by Project

Country	Project Characteristics	Available development financing
China and Russia	Public Projects	ECA, MDB (General terms)
	Commercial Projects	P/F, ECA, MDB (General terms)
North Korea and Mongolia	Public Projects	ODA, MDB (Concessional terms)
	Commercial Projects	P/F, ECA, MDB (General terms)

For most projects, it would be desirable to mix the two types of financing. In terms of fund mobilization, it would be the most desirable to maximize private financing but the private sector's active participation seems to be difficult at present, considering the risks and project profitability of the Northeast Asian projects. Accordingly, official sources will have to lead the development of Northeast Asia until the various basic conditions needed in attracting private financing are met. Among the official sources, bilateral ODA is unlikely to expand owing to the limit on financial resources and political issues of the relevant countries. And it is not expected that Northeast Asian countries would receive more financial assistance from the existing MDBs, considering their current position. Therefore, for now, the most reliable source seems to be the official export credits from the ECAs of Japan, South Korea and China in a short-term base, and a new MDB financing in medium and long-term.

3.2.2. Establishment of a Northeast Asian Development Bank (NEADB) based on Cooperation among ECAs

Considering various existing financial sources and their availability for the development of Northeast Asia, it may be concluded that a new regional development institution would be the most effective alternative. The problem, however, is that there may be many setbacks in establishing the bank, including having to conclude an agreement between governments, thus it will take a considerable amount of time.

Accordingly, a more practical approach can be suggested. As the first step, official ECAs of relevant countries should form a facility to provide co-financing to specific development projects such as PPP project. In this case, recipient countries should provide a multilateral agreement to guarantee the protection against possible risks attached to the relevant project. This would be available without the establishment of a special organization, and only requires an agreement between the concerned institutions on the support for the project. And, in such case, the ECAs can create a financial cooperative body for Northeast Asia's development in order to explore suitable projects and to discuss the financing terms. The reason why each ECA should be the leader of financing cooperation is that ECAs have a lot of know-how regarding overseas development financing as they have provided financial support for overseas projects for many years. And, as state-run banks, they can represent the position of their governments. Japan Bank for International Cooperation (JBIC), Korea

Eximbank, China Eximbank, and the U.S. Eximbank will be able to participate in the projects. As for the individual projects in the Northeast Asian region, these institutions can jointly offer direct financing, extend co-financing with the existing MDBs and commercial banks, and provide guarantee of loan repayments.

As the second step, these state-run financial institutions should contribute a certain amount of capital and set up an independent financial organization to operate it jointly based on their experiences accumulated through their financing cooperation for the projects in the region.

As the third step, relevant governments should participate in the capital contribution and officially inaugurate the Northeast Asian Development Bank (NEADB), extending financial assistance necessary for the economic cooperation in Northeast Asia.

As the final step, international investment banks should create investment funds within the bank, while encouraging the private sector to participate in the bank's operation. The international investment banks' participation by the means of investment fund has a merit of helping the NEADB run a flexible organization suitable for the global financial market. At the initial stage of establishing an institution, most projects tend to be unprofitable, so realistically, it would be quite difficult for the private sector to directly participate in the project. However, as financial activities of the NEADB settle in and commercial projects increase, a large volume of investment funds could be injected into the bank by international commercial banks.

Meanwhile, instead of trying to establish the bank through ECAs, the governments in the bloc could directly lead the bank's setup. In this case, the establishment of the NEADB should be declared at the summit meeting among South Korea, Japan and China. And then, the three countries would encourage the other three countries in the region to participate in the NEADB, and moreover, attract the U.S.A to the bank as an offshore member. Working-level officials from the governments of each country, state-run banks and research institutions could set up a preparation committee for the establishment of the bank. The committee would be in charge of mapping out the main objectives, basic characteristics, and contents of the organization, its business activities and capital allocation of member countries. The NEADB's operation through the relevant governments' direct agreement could be a more swift way. However, it would be not easy to have consensus among three governments.

4. Summary and Conclusion

In order for Northeast Asia to develop into powerful regional economic blocs such as the EU and NAFTA, mutual economic cooperation among the Northeast Asian countries needs to be strengthened. It is true that various political, social and institutional issues have hampered the cooperation. A more direct reason, however, is that the governments and private sectors were reluctant to take any concrete measures for the regional economic cooperation on the pretext of these issues. Thus, actions should be taken to attract the countries into a cooperative environment before such challenges are addressed. These actions include the construction of infrastructure, the establishment of the Northeast Asia Energy Community, joint development in less developed regions and support for North Korea's economic reform. Development financing is essential to implementing these actions.

The funds for development financing could be classified into private and official sources, and bilateral and multilateral sources depending on the fund provider. Private sources for the economic development projects are mainly gathered by the project finance (P/F) technique. If a project is deemed to be profitable, a huge amount of funds can be mobilized by utilizing this technique. Nonetheless, well-organized legal and institutional conditions are needed, since P/F is led by a number of concerned parties based on various contracts. The current conditions of North Korea, Mongolia, and the northern regions of China and Russia are not prepared enough to meet a variety of P/F contracts. Since it will take some time until private investors and lenders pay more attention to projects in Northeast Asia with keen interests, the official sources will have to dominate the development financing for this region for a while.

Official financing sources consist of bilateral ODA, official export credit and assistance from MDBs. Bilateral ODA, as a concession loan, can adequately support construction of social infrastructure. Nevertheless, the available amount is not large, and the eligible projects and countries are limited. Existing MDBs, such as World Bank and ADB, have greatly contributed to the advancement of the public sectors of developing countries. In particular, the projects involving multiple countries have been led by the MDBs. The problem, however, is that as these MDBs cover too many countries and regions around the world, they have approved only a few projects for Northeast Asia to date, and the possibility of their loan

increase for this area is low.

Taking these factors into consideration, the most effective way for development financing to take place is to first utilize the loans and guarantees provided by the ECAs of the countries in the bloc, and then concentrate on the establishment of the Northeast Asian Development Bank (NEADB).

A specialized institution, exclusively committed to the Northeast Asian development, would put more focus on supporting the region's projects, and handle local issues more effectively. Its establishment, however, requires the consent of all of the governments in the bloc, and this will take quite a while. To tackle this challenge, making approaches by phase would likely be most effective. So, as the initial step, the ECAs in the bloc should form a facility to extend co-finance for specific projects. As the second step, based on the accumulated co-financing experiences, these ECAs should set up an independent financial body and jointly operate it. As the third step, relevant governments should contribute the capital and officially inaugurate the NEADB. And finally, private investors and lenders should participate in operating the Bank by creating specific funds.

This approach could allow the regional development financing to commence right away, and support many development projects, while all relevant nations prepare for the establishment of the new MDB.

References

Chiba, Yasuhiro. 2009. "Northeast Asian Development Finance Cooperation: The Construction of a Development Finance Support Network." ERINA REPORT, No 86. Economic Research Institute for Northeast Asia, Japan.

Katz, Stanley. 1997. "Financing Northeast Asia's Infrastructure Requirements: Is a New Development Bank Needed? - A Quantitative Assessment for Regional Economic Cooperation in Northeast Asia." Proceedings of the 7th Meeting of the Northeast Asia Economic Forum. Ulanbaatar.

Lee, Jaimin. 2006. "Strategic Approach for the Northeast Development Bank." Paper read at The 15th Northeast Asia Economic Forum, September 6, 2006, at Khabarovsk, Russia.

Ma, Junlu. 2006. "Research on the Establishment of the Northeast Asia

Bank." Paper read at The 15th Northeast Asia Economic Forum, September 6 2006, at Khabarovsk, Russia.

Nam, D. W. 1991. "The Prospects of Economic Cooperation in Northeast Asia." Paper presented at the Conference of the Northeast Asia Economic Forum at Tianjin, China.

Tokyo Foundation NEADB Project Team. 2002. "The Establishment of a Northeast Asian Development Bank (NEADB) and Japan's international Cooperation Policy." Tokyo, Japan.

A Vision for Korea-Japan Economic Cooperation: The Construction of a Korea-Japan Undersea Tunnel

Jung Duk Lim

1. Introduction

Suggestions to establish regional economic integration in Northeast Asia, especially among Korea, China and Japan have been widely developed in past two decades (Kim 2008). In order to realize the suggestion one of several requirements is preparing the transportation infrastructure. Among those infrastructures a Korea-China and a Korea-Japan undersea tunnel have been suggested actively. In the case of Korea-Japan tunnel two suggested terminals are Busan, and Fukuoka, respectively. Busan suggested to launch a cross-border economic region between Busan and Fukuouka in 2006 and the two cities agreed to promote the idea and have made a substantial progress so far. And thus the tunnel idea could be a natural outgrowth of the suggestion. The tunnel could play the role of bridge connecting Japan and Korea leading to Trans-continent railroad and a facilitator for a global mega city region (Scott 200).

As a matter of fact Japan had a program to construct an undersea tunnel in colonial period (1920s) and the study continued even after the World War II in Japanese side mostly and a few studies by Korean side. This study reviews and examines the present studies and suggestions and we discuss the controversial points from the Korean and Busan side. This paper tries to suggest a more advanced and realistic proposal reflecting changed construction and engineering technology and logistics environment.

2. Review on the Japanese-side Study

Two studies reviewed here are A Basic Concept Study of Japan-Korea Tunnel (1983) and Economic Evaluation of Japan-Korea Tunnel (1996) by the Study Group for Japan-Korea Tunnel. The former study includes more technological aspects and the latter contains more financial aspects.

The technological study suggests three most plausible routes connecting Korea and Japan based on geological surveys, engineering considerations and transportation modes (Figure 1). Their suggested route is the alternative B connecting Karatsu-Ikki-Tsusima-Geoje as shown in Figure 1. The extended distance is 217.64 km. The reasons for choosing the plan B are 1) it is possible to construct a ground station in Tsusima and 2) it is available to avoid the deepest part of Korea-Japan Strait and thus construction could be easier. The suggested transportation mode was either a dual traffic mode of railroad and highway or a railroad like Shinkansen and a car train which can load cars on deck. The suggested engineering method is NATM which was used for Seikan Tunnel of Japan. Studies done by Korean side based on the Japanese side suggestions and there has been no alternative suggestion.

Figure 1. Three Alternative Routes

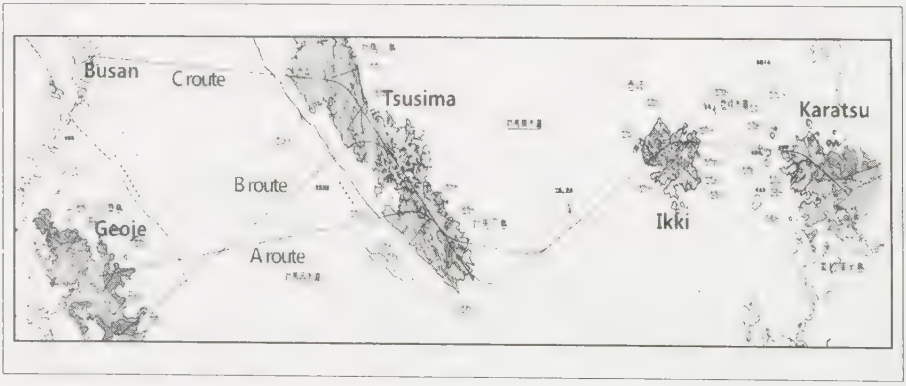


Table 1. Overview of Three Routes

	A route	B route	C route
Route	Karatsu~Ikki~Tsushima ~Geoje	Karatsu~Ikki~Tsushima (southern tsushima)~Tsushima (northern tsushima)~Geoje	Karatsu~Ikki~Tsushima (southern tsushima)~ Tsushima (northern tsushima)~Busan
Extended distance	209㎞	217㎞	231㎞
Subsea distance	145㎞	141㎞	128㎞
Land distance	64㎞	76㎞	103㎞
Maximum depth	155m	160m	220m
Transportation mode	Shinkansen, Linear Motor Car, A dual usage of road and railway (Shinkansen, linear motorcar)		
Construction period	15~20years (Tunneling Speed : 1㎞/month)		
Construction cost (230㎞, standard)	A dual usage of road and 1 railway + 1 service tunnel : 100 billion US dollars(440 billion won/㎞)		
	A dual usage of road and 2 railways + 1 service tunnel : 200 billion US dollars(870 billion won/㎞)		

3. Major Discussion Points and a Basic Concept from Korean Perspectives

3.1 Point 1: Function of the Tunnel

The basic concept of integrated transportation network in Northeast Asia is to connect major cities in the area within two hours and thus make the area a one-day living available. Considering the usage efficiency of each transportation mode, the regional transportation mode is suggested to be classified as follows:

Air shuttle: cities within range of 2,000-1,000 km (Busan-Haneda, Busan-Beijing, etc.)

High speed railroad: cities within range of 1,000-500 km (Busan-Shenyang, Dandung, Pyungyang, Osaka, Kobe etc.)

High speed railroad and car train: cities within range of 500 km

(Busan-Fukouka, and other cities in Southeast Korea and Kyushu)

Therefore the Korea-Japan Tunnel is expected to play the role of the transportation function of connecting Busan and Fukuoka and Southeast Korea and Kyushu.

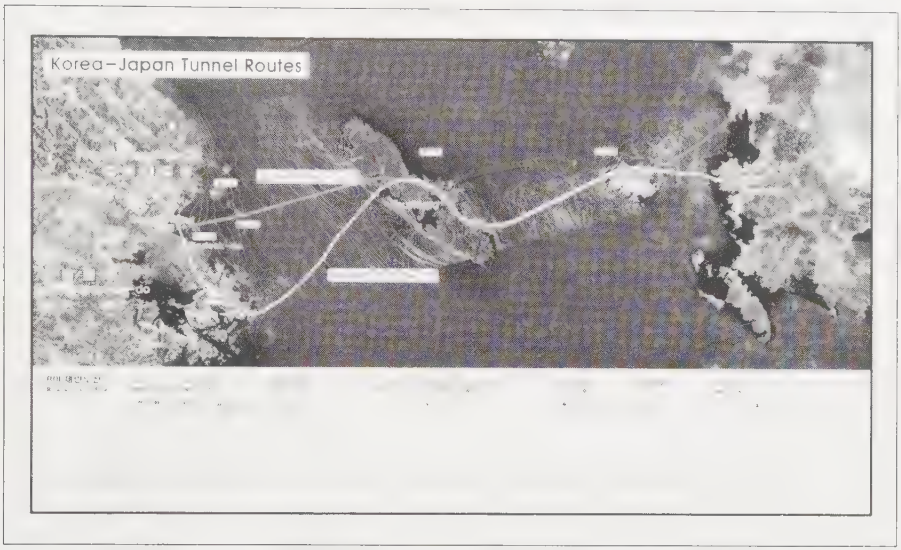
3.2 Point 2: Routes

Contrary to the Japanese side suggestion explained before, this study suggests the selection criteria to include points such as roundabout of deepest area, maximization of traffic demand (minimization of transportation time), consideration of historic and cultural meaning of origin and destination and consideration of linkage with existing transportation network and system (transfer, etc.).

Figure 2. Alternative Routes of Korea-Japan Tunnel

Considering the function of Korea-Japan Tunnel and the competitiveness with other transportation modes, our suggested route is the route C-1 connecting Busan-Tsushima-Ikki-Fukuoka with 222.64 km.

Figure 3. Vertical Section of Optimal Route



3.3 Point 3: Transportation Mode

The selection of transportation method needs to be future-oriented rather than consideration of present technological conditions. The suggestion by Japanese side prefers the present Shinkansen system and linear motorcar oriented high speed railroad and car train. The dual usage of road and railway seems possible in the future considering the speed of high technology development. However possibilities of accidents inside tunnel, waste gas problem will make construction and maintenance costs higher.

Our suggestion prefers a dual usage of railway and car train in order to lower construction cost and facilitate the process of project which is proved by the English-French Tunnel case.

3.4 Point 4: Engineering Method

The final decision of the method should be made after the undersea geological survey. The Japanese side conducted the geological survey the range belonging to Japan and a short range of Gadeok Island near Busan. Based on these surveys and the experience and technology accumulated by the construction of Seikan Tunnel they prefer NATM method. This study

suggests to divide the whole range into two parts: the shield-TBM engineering method used for English-French Tunnel for the range of Tsushima and Gadeok Island which considers weak ground condition of the route and shortens the connecting distance to Korean side. From Gadeok Island to the Westside of Busan the sinking tunnel method which used for the Bosporus Undersea Tunnel.

3.5 Point 5: History and Culture

The Korea-Japan Tunnel is expected to consider socio-cultural environment of both countries too. As explained in Introduction the first idea of the tunnel came out from the Japanese Imperial Government in 1920s as a tool seeking for a Greater East Asia Co-prosperity Region and Koreans used to have a negative emotion on the proposal. Currently two countries are connected by air and ferry but the negative response to the tunnel construction should be overcome by historical and cultural approach. The suggested starting point of Japanese side is Karatsu which was the base camp for the invasion to Korea in 1952. We suggest to change the starting point to Itoshima peninsula of Fukuoka. We also conducted a research on socio-cultural aspects of the tunnel including an opinion survey. In the case of opinion of Busan citizens two thirds favored the construction of the tunnel while one third opposed it. Therefore this project is suggested to play a monumental role in overcoming past 100 years and developing a future cooperation for coming 100 years between two countries,

3.6 Point 6: Construction Cost

The construction cost differs by the transportation method and engineering method. The ecology and topography also matters. The estimate by Japanese side reports about 100 billion US dollars in constructing a dual usage of road and railway tunnel and a service tunnel. Our estimate submits about 92 billion US dollars by the suggested route, engineering method and transportation mode. The cost estimation is vulnerable as a matter of fact and to be revised by the changing conditions.

3.7 Point 7: Passenger and vehicle demand

3.7.1 Passenger Demand

By our econometrical estimation based on the 2008 statistics the

forecasted passengers are as follows:

2008: 10,920 thousand (air 9,510 thousand, sea 141 thousand)

2050: 22,400 thousand (air 20,400 thousand, sea 550 thousand)

If we consider the transfer of the passengers to tunnel, the tunnel demand is estimated to be 6,040 thousand (3,410 from vessel and 2,630 thousand from air).

3.7.2 Cargo Demand

2007: 2,204 thousand TEUs between Busan and Japan (480 thousand TEUs between Busan and Kyushu)

2050: 275-587 thousand TEUs depending on trade conditions

3.8 Point 8: Synthesis

Considering discussed points above we suggest direct link between Busan and Fukuoka with estimated construction fee of 92 billion US dollars and estimated construction period of 10 years. In the case of Japanese side suggestion the connection of Korean side junction point and existing railway requires additional construction and added costs

4. Impact Estimate of the Tunnel

4.1 Facilitation of Cross-Border Cooperation

Busan-Fukuoka cross-border economic region could be developed to a Mega City Region in Northeast Asia by the help of tunnel. And the better transportation condition will be able to form several international industrial clusters in the region.

4.2 Movement toward Northeast Asia Economic Integration

The Korea-Japan Tunnel will be able to play as an integrated transportation network enhancing accessibility between major cities in the region and make the region a one-day living environment. And it will contribute to increase logistics and human mobility within and beyond NEA.

4.3 Changing Korean Land Structure

The tunnel will be another transportation axis in Southern Korea in addition to existing axis. The efficiency of land use will be improved.

4.4 Estimated Economic Impact

If Korean side assumes one third of estimated expense of construction the amount will be about 30 billion US dollars and that investment is estimated to result in about 40 billion US dollars of induced production effect and about 320 thousand additional employment.

Table 2. Suggested Route of JKTRI and BDI

	Suggested Route by JKTRI	Suggested Route by BDI
Route	Karatsu~Ikki~Tsushima~Geoje ~Gadeuk~Busan	Fukuoka~Ikki~Tsusfima~ Namhyeongjedo~Gadeuk~Busan Gangseo
Extended distance	220km(+67.9km).	222.64km
Subsea distance	128km	146.81km
Land distance	92km	75.83km
Maximum depth	160m	190m
Transportation mode	Shinkansen + Car train	High speed railroad + Car train
Construction period	about 15~20 years	about 10 years
Construction cost	about 100 billion US dollars	about 92 billion US dollars

Note: JKTRI, Japan-Korea Tunnel Research Institute.

5. Policy Suggestions

5.1 Move Forward to the Second Stage Study

It is suggested that the second stage study should be conducted jointly between two countries and the legal and institutional review and research is necessary to the agreed proposal. The demand estimate should be supplemented by national and international linkage effect. A civilian opinion survey to Japanese citizens is required before moving to the next

stage. In addition a discussion on financing and economic validity analysis is required.

5.2 The Tunnel as an Infrastructure for Busan-Fukuoka Cross-Border Region

A study effort by the City of Fukuoka has not been made so far. It is suggested to include the tunnel as an agenda of cooperation talk between two cities. A mutual recognition by two cities is a prerequisite for the real progress.

Cases for Oresund cross-border region and Pearl River Delta cross-border region needs to be studied associated with the infrastructure.

5.3 Consideration of Tunnel in the Context of NEA Integrated Transportation Network.

The Korea-Japan tunnel is expected to lead the NEA integrated transportation plan. The Busan-Fukuoka MCR will be one of the leading logistics centers in the region by the help of the tunnel. For this purpose an initiation of NEA Logistics Forum is suggested.

5.4 "A Tunnel of Heart" First

The Korea-Japan Tunnel is expected to lead the future Korea-Japan FTA and Korea-Japan Security Alliance. This project may be an important starting point to renew relation between two countries.

5.5 Establishment of Korea-Japan Research Institute

An establishment of holistic research institute covering all the aspects related to the tunnel is desirable to precede the actual start of the project. At the same time a graduate school or a course for Korea-Japan Tunnel could contribute in raising human talent.

5.6. Establishment of Gangseo Multi-Modal Terminal in Busan

As a preparation for Korea-Japan Tunnel a multi-modal terminal plan is suggested to be included in Gangseo international logistics city plan.

Reference

Button, K. 1994. "The Channel Tunnel and the Economy of Southeast England." *Applied Geography*, 14, pp. 107-121.

Chigook, Choi. 2009. "The Fundamental Study for Building the Korea-Japan Tunnel and the Unified Traffic Corridor of Northeast Asia." Busan Development Institute.

Hay, A., Meredith, K. and Vickerman, R. 2004. "The Impact of the Channel Tunnel on Kent and Relationships with Nord Pas de Calais." Centre for European, Regional and Transport Economics University, pp. 7-8.

Japan I. D. E. 2006. "Asian International Input-Output Table 2000."

Kimura Toru. 1996. "Economic Appraisal of Japan-Korea Tunnel." Japan- Korea Tunnel Research Institute.

Takashima, Shuichi. 2001. "Railway Operators in Japan 2." *Japan Railway and Transport Review*, pp. 58-67.

Yasuo, Sasa. 1993. "From the time of Japan-Korea tunnel~Neo Silkroad."

Appendix

Appendix A: Tokyo Meeting

Tokyo Meeting on Financing for Regional Economic Integration in Northeast Asia: Cross-border Infrastructure, Resources, and Capital Mobilization organized by The Northeast Asia Economic Forum and hosted by Research Promotion and Support Division, Nihon University in cooperation with Korea Institute for International Economic Policy (KIEP), East Asia Research Program, University of California, Berkeley, Research Center for Financial Cooperation in Northeast Asia, Tianjin, China, College of Social Sciences, University of Hawaii at Manoa

An expert meeting under the title "Financing for Regional Economic Integration in Northeast Asia: Cross-border Infrastructure, Resources, and Capital Mobilization" was held at Nihon University on May 11-12, 2011, Tokyo, Japan.

Day 1

The meeting began with Dr. Lee-Jay Cho's opening remarks, followed by a welcoming speech by Masahiro Sato, Head of Nihon University Research Promotion Department and an address by former Minister of Foreign Affairs Dr. Taro Nakayama. Participating experts were then introduced and meeting deliberations conducted.

In session 1 Prof. Takashi Yamamoto from Takushoku University presented a summary of the debates held so far at the expert meetings regarding the need for establishing the "Northeastern Asia Bank for Cooperation and Development Bank" (hereinafter referred to as NEABCD) and stated that 40 billion US dollars would be required for such an enterprise. He pointed out that investment in international projects spanning between countries would be a particularly important function of the NEABCD, and that procurement of natural gas and other energy resources would be indispensable for future plans for economic development of Northeast Asia.

Furthermore, Dr. Zhang Jianping, Director of the Department of International Regional Cooperation at the Institute for International Economic Research, National Development and Reform Commission, China examined in his report the necessity and feasibility of the establishment

of the NEABCD. In terms of necessity, he supplemented Prof. Yamamoto's presentation, by pointing out the need to carefully discuss concrete models for distributing NEABCD funds to member states in order to enable implementation of long-term development plans and large-scale cross-border projects.

Korea API board member and former Senior Economic Advisor to the President of Korea Bahk Byong Won made a presentation about the establishment and activities of regional development banks in Europe. In these banks, apart from the interested countries from the regions in question, capital involvement of countries outside the regions is permitted. The audience was told that that United States' involvement and political maneuvering prior to establishment greatly influenced the creation process of these banks.

This presentation was followed by comments from Lee Chang Jae (Senior Fellow, Korea Institute of International Economic Policy), Zou Ping (Secretary General, Research Center for Northeast Asia Financial Cooperation and former Senior Advisor, China Life Insurance, China) and Lim Jung Duk (Professor Emeritus at Busan National University and Chairman of the Urban Economics Institute, Korea). It was agreed that strong leadership was needed to establish the NEABCD and that China, Japan and the Republic of Korea would play the central role in that endeavor, Concrete discussions focusing on which of the three countries should be the one to take leadership and make the first step towards the establishment of the bank was were also made. There were opinions that due to the internal political situation in Japan and the Republic of Korea, China is the most adequate for this role, but that because of difficulties China itself is experiencing, the realization of such leadership role might be put on hold. It was pointed out that bureaucratic institutions present a tough obstacle in each of the three countries, and argued that strong leadership such as that exhibited in Europe, where the former French president Mitterrand took the initiative for the establishment of regional development banks, could possibly offer a shortcut towards the creation of the NEABCD.

Day 2

On the second day the meeting venue was moved from the 3rd floor of the Annex Building of the Nihon University headquarters to the conference room on the 6th floor of the headquarters.

Session 2 began with a talk by Prof. Lim Jung Duk (Professor Emeritus of Busan National University and Chairman of the Institute for City and Economy, Korea), entitled: "Vision for Korea-Japan Economic Integration: Fukuoka-Busan Cross-border Infrastructure Development as a Stepping Stone," which focused on the Japan-Korea cross-border projects that have been implemented so far, such as those in building infrastructure - roads and railway. The history of joint economic development projects between the two countries is long, starting in 1917 when an undersea tunnel was planned, and encompasses several implemented projects.

Next, Li Gangzhe, Professor of Economics at Hokuriku University in Kanazawa, in his presentation entitled "Global Financial System for Development and New Development Bank Approach for Northeast Asia," stressed that although in Asia there exists the "Asian Development Bank" (ADB), which itself is a regional bank, there are no sub-regional banks as in other areas of the world and that the establishment of the NEABCD is a matter of outmost urgency if we are to sustain further development in Northeast Asia, which has so far seen the most rapid economic growth in the world.

Furthermore, Prof. Mizuno Mitsuru of Nihon University in his talk under the title "Northeast Asia Economic Community and Development Bank for Northeast Asia: Japanese Perspective" advocated the need for including NGOs in efforts directed at establishing the NEABCD. Opinions from the audience, however, questioned this approach by pointing out difficulties arising from the involvement of NGOs in development bank activities. NGO involvement was, therefore, also one of the possibilities explored at this meeting.

Prof. Pae Won Kee from Hongik University concretely introduced accounting systems employed by different development banks and argued about their merits and demerits in his presentation under the title: "Review of Accounting Policies and Operating Methodologies for Existing Development Banks. He pointed out that there is no such thing as a prefect system and argued that, in establishing the NEABCD, further improvement of the existing accounting systems should be undertaken and a well-functioning system adopted.

After this, Mr. Bahk Byung Won, board member of the Korea API and former Senior Economic Advisor to the President of Korea and Zhang Jianping, Director of the Department of International Regional Cooperation at the Institute for International Economic Research, National Development

and Reform Commission in China presented their comments. In his address Mr. Bahk Byung Won emphasized that there is not much time left for the establishment of the NEABCD in the sense that if the opportunity that presented itself with China overtaking Japan and becoming the second world economy in terms of GDP is missed, in the future, the difference in the size of economy between China on one side, and Japan and South Korea on the other, might become too large. At present China and Japan could exercise equal leadership and equally contribute to the establishment of the NEABCD. This was an important argument and Mr. Zhang Jianping, citing data on trade revenue and expenditure, came to the same conclusion regarding the economic balance between China and Japan as Mr. Won.

In the afternoon session a panel discussion by the following five experts was held: Tadashi Maeda, Head of the Department of Corporate Planning at the Japan Bank for International Cooperation and Special Advisor to the Japanese Government, Lee Chang Jae, Senior Fellow at the Korea Institute of International Economic Policy (KIEP), Mitsuru Mizuno, Professor at Nihon University, Zou Ping, Secretary General of the Research Center for Northeast Asia Financial Cooperation and Chairman of the China API, and Lim Jung Duk, Professor Emeritus at Busan National University and Chairman of the Institute for City and Economy, Korea.

At the beginning, Mr. Maeda provided a description of the aftermath of the huge earthquake that hit Japan on March 11, 2011, introduced a concrete plan by the Japanese government for the rebuilding of the country and discussed international effects of the disaster. Other members commented on the presentations and a lively exchange of opinions ensued. In these discussions, the participants especially expressed understanding of the importance of Mr. Bahk Byung Won's suggestion that the time frame for establishing the NEABCD is limited. Also, debate was conducted on the issue of how the NEABCD could financially support the rebuilding of Japan, and disaster relief was slated as one of the fields in which the NEABCD should make a contribution. The future role of the NEABCD as a disaster relief sponsor was added to the list of reasons that necessitate the establishment of such a bank.

At this expert meeting, in view of the establishment of the NEABCD, concrete amounts of contributions by China, Japan and the Republic of Korea as well as the proportion to be distributed to them were discussed, together with the issue of which country should take the leadership role. Acute necessity for a quick establishment of the NEABCD was recognized

anew, especially in the light of Mr. Bahk Byung Won's warning about the time limit for the establishment of the bank and the earthquake disaster that struck Japan.

Agenda

Financing for Regional Economic Integration in Northeast Asia: Cross-border Infrastructure, Resources, and Capital Mobilization

*An activity in the context of APEC 2011, Honolulu

Tokyo, Japan, May 11-12, 2011
Organized by
The Northeast Asia Economic Forum

Hosted by
Office of Research Promotion and Support, Nihon University

In Cooperation with
Korea Institute of International Economic Policy (KIEP)
East Asia Research Program, University of California Barkley
Research Center for Financial Cooperation in Northeast Asia, Tianjin, China
College of Social Sciences, University of Hawaii at Manoa

Nihon University
4-8-24 Kudan-Minami
Chiyoda-ku, Tokyo, Japan

WEDNESDAY, 11 May 2011

13:30 - 14:00 Opening Session
Opening Remarks by Lee-Jay Cho, Chairman, Northeast Asia Economic Forum
Welcoming Remarks by Sato Masahiro Director, Office of

Research Support and Support, Nihon University
Introductory remarks by Nakayama Taro, Former Minister of Foreign Affairs of Japan

Session 1: Resources and Infrastructure and Capital Mobilization

14:00 - 14:20 Case for Financing Cross-border Infrastructure in Mongolia and Russian Far East Yamamoto Takashi, Takushoku University, Japan

14:20 - 14:40 Financing Resource Development and Infrastructure and Proposed Northeast Bank for Cooperation and Development Zhang Jianping, Director, Department of International Regional Cooperation, Institute for International Economic Research, National Development and Reform Commission, China

14:40 - 15:00 Review of European Bank for Regional Development in terms of its Goal , Performance, and Accomplishment Bahk Byung Won, Board Member, Korea API and Former Senior Economic Advisor to the President of Korea

15:00 - 17:00 Discussion
Zou Ping, Secretary General, Research Center for Northeast Asia Financial Cooperation and Former Senior Advisor, China Life Insurance, China
Lim Jung Duk, Professor Emeritus, Pusan National University and Chairman, Institute for City and Economics, Korea

THURSDAY, 12 May 2011

Session 2: Financing Regional Economic Integration

9:00 - 9:20 Vision for Korea-Japan Economic Integration: Fukuoka-Busan Cross-border Infrastructure Development as a Stepping Stone
Lim Jung Duk, Professor Emeritus, Busan National University and Chairman, Institute for City and Economy, Korea

9:20 - 9:40	Northeheast Asia Economic Integration and Need for Multi-lateral Development Bank Li Gange Ze, Professor of Economics, Hokuriku University, Kanazawa
9:40 - 10:00	Review of Accounting policies for 4 development banks - ADB, IDB, AFDB, EBRD Pae Wonki, Professor, Hongik University and Advisor, KPMG, Korea
10:00 - 10:20	Northeast Asia Economic Community and Development Bank for Northeast Asia: Japanese Perspective Mizuno Mitsuru, Professor, Nihon University
10:00 - 12:00	Discussion Bahk Byung Won, Board Member, Korea API and Former Senior Economic Advisor to the President of Korea Zhang Jianping, Director, Department of International Regional Cooperation, Institute for International Economic Research, National Development and Reform Commission, China
12:00 - 13:30	Lunch
13:30 - 16:30	Panel Discussion Lim Jung Duk, Professor Emeritus, Busan National University and Chairman, Institute for City and Economy, Korea Tadashi Maeda, Head of Corporate Planning Department, Japan Bank for International Cooperation Special Advisor to the Cabinet Bahk Byung Won, Board Member, Korea API and Former Senior Economic Advisor to the President of Korea Mizuno Mitsuru, Professor, Nihon University Zou Ping, Secretary General, Research Center for Northeast Asia Financial Cooperation and Former Senior Advisor, China Life Insurance, China

Appendix B: 2011 Northeast Asia Economic Forum Annual Conference

Twentieth Northeast Asia Economic Forum held in Honolulu, Hawaii 7 - 9 August 2011

Organized by Northeast Asia Economic Forum *and* College of Social Sciences, University of Hawaii at Manoa Cooperating Institutions, Korea Institute for International Economic Policy, Korea Telecom (KT), Korea International Trade Association, JCPAEC and the Ministry of Foreign Affairs, Japan, Japan Bank for International Cooperation, University of California Berkeley, Asia Research Program
University of Hawai'i at Manoa, College of Social Sciences, China Asia Pacific Institute and Tianjin Municipal Government

Session 1: Trans-Pacific Trade and Economic Development Partnership

In these turbulent economic times, there is a tendency for countries to turn inward and pursue isolationist policies. Yet, to meet the globalization challenge, it is certain that international trade and cooperation should be at the top of international agenda. From the presentations, we can appreciate more keenly that there is a rebalancing of international trade in the world today. APEC can serve as a unifying mechanism in the spaghetti bowl of free trade agreements.

Ippei Yamazawa presented "Trans-Pacific Partnership: Priority Issue of the APEC 2011 Honolulu." APEC is a unique and unprecedented opportunity for Hawaii. Organized in 1989 as a ministerial meeting on economic cooperation in Australia, APEC held its first Leaders meeting in Seattle with a mission to "achieve free and open trade in the Asia-Pacific." Today, APEC consists of 21 member economies surrounding the Pacific Ocean who are united by a common goal of increasing economic

prosperity and growth in the region.

In recent years, under the environment of accelerated globalization and prevailing regionalism and preferential trading arrangements, APEC shifted from liberalization to a more realistic line toward facilitation, capacity building, and structural reform. In 2006, as numerous Free Trade Agreements (FTA) were emerging in the Asia-Pacific, the APEC Advisory Council (ABAC) proposed a greater FTA covering all of the APEC economies. Trans-Pacific Partnership has emerged as a binding FTA among a selected economy group of APEC. Originally formed by Brunei, Chile, New Zealand, and Singapore in 2006, it aims to establish a "Trans-Pacific Strategic Economic Partnership among the parties based on common interest and deepening of the relationship in all areas of application." It covers not only trade in goods and services, but also such facilitation areas as rules of origin, custom procedures, trade remedies, technical barriers to trade, competition policy, intellectual property, government procurement, and dispute settlement.

The U.S. has taken initiative the discussion of the TPP. In fact, Obama's priority for APEC this year is to complete the Trans-Pacific Partnership (TPP) and speed up the process of development of the broader Free Trade Area of the Asia-Pacific (FTAAP). TPP is currently negotiated among nine APEC economies. It will be a binding agreement with high level FTA. Effective economic cooperation should be provided so as to help APEC developing economies to improve their capacity for further trade and investment liberalization and facilitation and meet new challenges. As TPP, and ASEAN+3 and +6 pull the Asia Pacific from above, APEC pushes it from behind.

Chang Jae Lee presented "Prospects for a China-Japan-Korea FTA: Light at the End of the Tunnel." The share of intra-regional trade between China Japan Korea (CJK) has increased substantially in the last twenty years, but still remains below North America Free Trade Agreement (NAFTA) and the EU. China's intra-regional trade has in fact been declining, while Japan and Korea have increased their dependency on intra-regional trade. Northeast Asian region has become one of the primary trading partners for CJK.

While there are many concluded FTAs involving CJK, there is still no FTA between these economies. Many research studies have been conducted on the feasibility of CJK FTA. Following the recommendations of the Joint

Study Committee on CJK FTA, the leaders of China, Japan, and Korea have agreed to convene FTA negotiations after the final results of the study are presented at the end of 2011.

It is very likely that CJK FTA will indeed be realized in the near future for several reasons. First, CJK are neighboring countries and major trading partners. Secondly, with FTA becoming a world-wide phenomenon and given the economic uncertainties of the EU and the U.S., CJK cannot continue to depend heavily on these markets and should indeed strengthen intra-regional cooperation. Moreover, given the proliferation of bilateral and plurilateral FTAs, a region-wide FTA is becoming increasingly necessary.

A major lesson that can be learned from the EU's example of economic integration is the necessity of strong political leadership. This obstacle needs to be overcome for CJK FTA to be concluded successfully. CJK FTA will be essential for the facilitation of free trade in the Asia-Pacific region.

Chung Lee commented on the session by raising a question. In the changing architecture of the East Asian economic integration, the key question is whether China be emerging as the supreme leader in the region?

Glyn Ford commented that while Europe is undergoing uncertain economic times at the moment, it is certain that the region will overcome these difficulties, largely due to a strong network of regional economic cooperation between the members of the EU. Economic integration has clearly been a success. Asian FTA's are not perceived as stumbling blocks in Europe, but rather as vehicles to building greater economic prosperity and free international trade.

Session 3: Financing Infrastructure Development in Northeast Asia

Maeda Tadashi presented "Financing Infrastructure Development in Northeast Asia." In Northeast Asia region, Liquified Natural Gas (LNG) alliance between Japan and South Korea is needed. Cooperation between the two countries will be beneficial since peak demand for LNG in Japan is reached during summer while peak demand in Korea is reached during winter.

Mongolia has rich rare metal reserve. However, lack of financing and infrastructure in Mongolia is preventing them from exporting the resource. Tavan Tolgoi Field Development Project allowed them to now produce 15 million tons of coal. The project is able to cover cost of infrastructure and it paves the way for further exploration.

Toward logistic network in Northeast Asia, new transportation network development among Japan, China and Russia is crucial. The countries have agreed to establish Trans-Sea of Japan Line, connecting Hunchun, Zarubino, and Niigata to form logistical triangle. Recycling port may have great opportunities in Northeast Asia. Port cities can play a role to recycle wastes and export recycled resources to other areas.

Northeast Asian Bank for Cooperation and Development (NEABCD) can play a role to facilitate such infrastructure development across Northeast Asian countries. Such projects cannot be financed by existing banks. We need to shift our mindset from government based to sub-sovereign bodies for further development of the region. We must build infrastructure between countries for future development.

Jaimin Lee presented "Financing Development Projects in Northeast Asia." Development potential is huge in Northeast Asia region and there is a demand for cross-border projects for regional economic cooperation. In order to finance development projects, large scale funding needs to come from private sources. However, it also requires public support. Multi-lateral banks (MDB) such as World Bank and Asian Development Bank are reliable for developing countries but existing ones fall short of meeting the regions' needs and borrowing capacity. Therefore, we need Northeast Asian Development Bank (NEADB) though it is a complicated issue.

Public Private Partnership (PPP) is a contract between public authority and private party. Private party assumes financial and operational risk while MDBs and Export Credit Agencies (ECAs) actively participate in PPP projects. Cross-border infrastructure projects are needed in Northeast Asia. There is a strong private funds support towards Northeast Asia but public financing support is weak.

Credit Guarantee and Investment Facility (CGIF) promotes Asian bond market. CGIF guarantees members' corporation when bond is issued and multilateral entities cover specific purpose and area. Major PPP projects include transportation infrastructure, power generation distribution, and health care and education facilities. NEA PPP can be set up prior to

NEABCD and can be managed by financial sector, so its operation will be effective.

Inou.e Satoshi presented "Towards the Integrated Regional Logistics System." World trade has increased rapidly since 1980 and efficient and reliable networks are needed to cope with increasing demands. Ports continue to improve facility even in time of recession and are transforming into "logistics center," containing opportunities for PPP projects. After the financial crisis and paradigm shift of supply chain management, ports are becoming more sustainability oriented and integrated to regional logistics systems. Integrated system helps achieve higher productivity in a sustainable manner. In order to take advantage of a shared sea in Northeast Asia, it is essential to integrate regional logistics systems.

Pavel Minakir presented "Cross-Border Infrastructure Development." Russia plays an important role in mutual trade, exchange of capitals, technology and people, and infrastructure. Development of Cross-border Infrastructure is crucial. And there is a long-term intention for Russia to become a part of the market space in NEA. Next year's APEC summit will be held in Vladivostok. There are three segments to be discussed at APEC 2012: 1) mutual trade 2) exhange of capital, technologies, and people, and 3) infrastructure.

Russia exports 13% of its total exports to Northeast Asia. Foreign direct investment amounts 14 billion USD but very little come from Northeast Asia into Russia. Japan invests most heavily in Far East region.

Strategy for infrastructure development focuses on the area of energy and transportation; development of facilities oriented to internal, regional, economic, and social development. Looking outward, such development will support foreign trade of Russia in Northeast Asia region. The development also aims to facilitate cross border cooperation. The plans include development of rail points, upgrading and construction new airports for expanding international air services, and harmonizing road checkpoints on Russia/Mongolia border.

There are 63 funded projects towards development of Vladivostok as a center for international cooperation in the Asia Pacific region. Projects includes development of highway between airport and Vladivostok, reconstruction of Vladivostok airport, bridge over Eastern Bosphorus Strait, Conference and Press Center for 2012 APEC summit; Opera/Ballet Theatre

(completed by mid 2012).

Xiaoyan Zhang presented "The Establishment of the Northeast Asias Bank." Tianjin government has been working hard to support and create the development of a Northeast Asian Development Bank.

Bank supports four areas of finance: 1) energy and transportation, 2) regional economic and project, 3) environmental protection and saving energy, and 4) sustainable economic development. Sponsors must be sovereign states to get benefits such as state immunity to facilitate cross-border projects. It can follow similar processes as in Americas Andean Development Bank, Central American Bank of Economic Integration.

Tianjin government has developed strategy to promote understanding, convincing the central government and relevant ministries. So far, there are no opposition and consensus forming in China. Tianjin is already working with the central government to achieve this goal, but would like to work with the central government at all levels. Task force is now formed of people of all relevant ministries. This year, in May, Tianjin had an economic forum for discussions, and the banking problems should be set up as an agenda to submit for leaders at the 5th Japan/S. Korea leaders meeting next year.

Dr. Zhang hopes that member countries, specialist, government officials and academics admit establishment of NEABCD. Tianjin municipal government has made efforts to every level of central government. Dr. Zhang hopes other countries will do similar work to get central government's support. Banking problems in NEA should be addressed in leaders meeting in Japan and Korea.

Ganbold Baasanjav provided commentary and what has been done in Mongolia to solve financial problems. Most practical and feasible solutions are in PPP. Governments and corporations are already moving in that direction. Mongolia has major deposits and rich reserves of coal. Mongolia is likely to become world's fastest growing economy. Mongolia encourages businesses and governments of neighboring countries to start businesses in Mongolia. Solving financial demand for mining and energy projects in Mongolia equals Development Bank of Mongolia. Such efforts can transform Mongolia into a prosperous economy.

Ma Junlu commented that Northeast Asia need new multilateral

development bank to promote further sustainable development of the regional economy. There is a geographic advantage in Multi-lateral development. Russia and Mongolia have rich energy resources. However, there's only been slow development because of political sensitivity and lack of financing, such as development banks. The countries in Northeast Asian regions have to cope with financial crisis and ensure sustainable economic development. We need new multilateral development bank. Countries in NEA can use resources in a peaceful, orderly way. Relationship between NEADB and other MLDB is complementary and cooperative and will cover holes left over from other MLDB in Northeast Asia.

AGENDA

Sunday, 7 August 2011

All day Check-In

Hawaii Prince Hotel Waikiki
100 Holomoana Street, Honolulu, HI 96815
Phone: +1(808) 956-1111 Fax: +1(808) 946-0811

18:30 **Reception Dinner**

Location: **Hale Koa Hotel Waikiki Ballroom**
2055 Kalia Road, Honolulu, HI 96815

Monday, 8 August 2011

Hawaii Prince Hotel Waikiki: Mauna Kea Ballroom

9:00 - 9:45 Opening Ceremony

Chair:
Lee-Jay Cho, Chairman, Northeast Asia Economic Forum

Welcoming Remarks
Daniel Inouye, Chairman, Appropriation Committee, the United States Senate
Neil Abercrombie, Governor, State of Hawaii
George Ariyoshi, Former Governor, State of Hawaii; Honorary Chairman, NEAEF.

Remarks by Country Representatives
JIANG Zhenghua, Vice-Chairman of the Standing Committee of the Ninth National People's Congress and Chairman of

CPWDP Central Committee; *presented by:* **WANG Shuzu**, Former Vice Mayor of Tianjin City

Others

9:45 - 10:20 Keynote Speeches

Nakayama Taro, Former Minister of Foreign Affairs, Japan

Scott Shemwell, CEO, Knowledge Ops, Inc.

10:20 - 10:35 Coffee Break

10:35 - 12:30 Session 1: Trans-Pacific Trade and Economic Development Partnership

Chair:
Denise Konan, Former Chancellor and Professor of Economics at University of Hawai'i at Mānoa

- **Yamazawa Ippei**, Former President, International University of Japan, and Institute of Developing Economies-Japan External Trade Organization, Japan
- **Lee Chang Jae**, Senior Fellow of Korea Institute for International Economic Policy (KIEP), Korea and Former Chair, East Asia FTA Joint Expert Group

Commentators

- **Chung Lee**, Former Associate Dean, College of Social Sciences and Professor Emeritus of Economics, University of Hawai'i at Mānoa
- **Wang Cunjie**, Director, Tianjin Seaport (Group) Co., Ltd.
- **Glyn Ford**, Former Member of the EU Parliament and Chair of East Asian Policy Committee, Brussels, Belgium

Discussion

12:30 - 13:30 Lunch

13:30 - 15:30 Session 2: Energy Cooperation and Green Growth Partnership

Chair: **Scott Shemwell**, CEO, Knowledge Ops, Inc.

Keynote Speech
Brian Schatz, Lieutenant Governor, State of Hawaii

- **Robert Alm**, Executive Vice President, Hawaiian Electric Company, Inc.
- **Toh Kyung Hwan**, Director General, Energy Industry Policy, Ministry of Knowledge Economy, Republic of Korea, *presented by*:
- **Oh Jin-Gyu,** Senior Researcher, Green Growth Research Group, KEEI
- **Minami Ryo**, Director, International Affairs Division, Agency for Natural Resources and Energy of Japan
- **Tanabe Yasuo**, Vice President and Executive Officer, Government and External Relations, Hitachi
- **Iinuma Yoshiki**, Director of Research Department, Japan Electric Power Information Center, Inc. (JEPIC)

15:30 - 15:50 Coffee Break

15:50 - 16:40 Commentators

- **Zhang Jianping**, Senior Economist, Director, Department of International Regional Cooperation, Institute for International Economic Research, National Development and Reform Commission (NDRC), People's Republic of China
- **Uchida Mitsuho**, Former Director, Central Research Institute of Electric Power Industry, Visiting Professor, Chukyo University, Japan
- **Kanekiyo Kensuke**, Research Advisor, The Institute of Energy Economics, Japan (IEEJ)

Discussion

Tuesday, 9 August 2011

9:00 - 11:00 Session 3: Financing Infrastructure Development in Northeast Asia

Co-chairs:
Lee-Jay Cho and **Wang Shuzu**, Former Vice Mayor of Tianjin City

- **Maeda Tadashi**, Head, Corporate Planning Department, Japan Bank for International Cooperation and Special Advisor to the Cabinet, Japan
- **Lee Jai Min**, Former Vice President, Korea Export Import Bank
- **Inoue Satoshi**, Professor, National Graduate Institute for Policy Studies, Japan
- **Pavel Minakir**, Academician and Director, Economic Research Institute, Far East Branch, Russia Academy of Sciences, Russia
- **Zhang Xiaoyan**, Deputy Director, Tianjin Development and Reform Committee, Tianjin Municipal Government, Tianjin, China

11:00 - 11:15 Coffee Break

11:15 - 11:45 Commentator

- **Ganbold Baasanjav**, Director, Asia Department, Ministry of Foreign Affairs and Trade, Mongolia
- **Ma Junlu**, Dean, School of Economics, Nankai University
- **Jiang Hong**, Director General of Finance Research & Development Center, CDB

Discussion

11:45 - 13:00 Lunch
13:00 - 14:50 Session 4: Low Fertility and the Aging Society

Chair:
Nakayama Taro, Former Minister of Foreign Affairs, Japan

- **Andrew Mason**, Professor of Economics, University of Hawai'i at Mānoa and Senior Fellow, East-West Center
- **Ogawa Naohiro**, Professor and Director, Nihon University Population Research Institute, Japan
- **Cho Nam-Hoon**, Director, Research Institute of Aging Society, Hanyang University, Republic of Korea
- **Xiao Zhenyu**, Director and Professor, Committee of Longevity Study, Chinese Gerontological Society, China

Commentators

- **Colette Browne**, Director, University Center on Aging, University of Hawai'i at Mānoa

Discussion

14:50 - 15:30 Coffee Break

15:30 - 17:00 Closing Session

Chair: **Lee-Jay Cho**

Summaries by Session Chairs

Closing of the Twentieth Forum of NEAEF

Honolulu Declaration

List of KIEP Publications (2011)

■ Policy Analyses

11-01 Changes in the International Economic Order after the Global Financial Crisis (December 2011)

■ Policy Analyses I (in Korean)

11-01 U. S. and Canada' s Green Growth Strategy and its Implications (December 2011)

11-02 From Northeast Asian Economic Cooperation to East Asian Economic Integration: Toward an Era of East Asia (December 2011)

11-03 New International Monetary System: Necessity and Alternatives (December 2011)

11-04 China in International Finance: Present and Future (December 2011)

11-05 The Macroeconomic Effects of International Risks on Korean Economy in a Medium-Term Perspective (December 2011)

11-06 Analysis on the Effectiveness of 2000' s Capital Controls (December 2011)

11-07 Changes in International Economic order after the Global Financial Crisis and Korea' s International Economic Policy (December 2011)

11-08 Evaluation and Future Tasks of the East Asian Development Model: Focusing on the Comparison with the Anglo-American Model (December 2011)

11-09 The Determinants of Price Volatility in Food Crops and Policy Implcations for Korea (December 2011)

11-10 Korea' s Trade Policy and Strategy toward the EU after Korea-EU FTA (December 2011)

11-11 The Study on Introduction of Korea' s GSP Scheme (December 2011)

11-12 A Study on Competitive Structures to Maximize Effects of Openness (December 2011)

11-13 A Study on the Determinants and Productivity Spillover Effects of Korea' s Intermediate Goods Trade (December 2011)

11-14 The Impact of Technical Barriers to Trade (TBT) on Bilateral Trade: A Case of Korea (December 2011)

11-15 Economic Costs of Protectionism and Its Policy Implications (December 2011)

11-16 APEC Economic Integration and Rules of Origin: Economic Impacts and Policy Implications (December 2011)

11-17 South-South and Triangular Cooperation: Trends and Implications for Korea (December 2011)

11-18 Analysis on the Competitiveness of Japanese Manufacturing Industry (December 2011)

11-19 Analysis on FDI in Service among Korea-China-Japan and Strategies for Mutual Cooperation (December 2011)

11-20 China' s Subsidies and Major Trading Partners' Countermeasures (December 2011)

11-21 Change in North Korea's Policy for Foreign Direct Investment and Future Direction of the Inter-Korean Economic Cooperation (December 2011)

11-22 Firm Level Productivity and Survey Results for Korean Firms in Vietnam and Indonesia (December 2011)

11-23 Strategies of Major Nations for Economic Cooperation with Africa and their Implications (December 2011)

11-24 The Rise of Brazil: Ways to Expand the Industrial Cooperation between Korea and Brazil (December 2011)

A list of all KIEP publications is available at: http://www.kiep.go.kr.

11-25 India State-Wise Growth Pattern Projection and Policy Implications (December 2011)

11-26 CIS Economic Integration and Policy Implications for Korea: Focusing on the Customs Union (December 2011)

11-27 Strategies to Promote Trade and Investment between Korea and China (December 2011)

11-28 Management Survey of Korean Firms in India and Performance Analysis (December 2011)

11-29 A Study for the Economic Cooperation between Korea and Indonesia from a Long Term Perspective: Focused on Regional Economic Development and Human Resources (December 2011)

11-30 The 20 Years of MERCOSUR: Performance and its Implications (December 2011)

■ ODA Policy Analyses (in Korean)

11-01 G20 Development Agenda and Its implication for Korea's ODA Policy (December 2011)

11-02 Major Issues and Policy Implications of Aid for Trade (December 2011)

11-03 A Study on the Aid for Trade Policy Frameworks of Major Donor Countries and Korea' s Alternative (December 2011)

11-04 Future Directions for Public-Private Partnership in ODA: Taking Corporate Philanthropy Abroad into Account (December 2011)

■ Studies in Comprehensive Regional Strategies (in Korean)

11-01 20 Years of Economic Reforms in India: Evaluation and Prospects (December 2011)

11-03 The Images of Korea and India as Viewed by the Other (December 2011)

11-04 Current Status of Indian Green Energy Industry and Cooperation between Korea and India (December 2011)

11-05 Korea-India Cooperation and Exchange in the Financial Sector: Banking, Securities, and Insurance Industries (December 2011)

11-06 ASEAN' s Decision Making Structure and Behavior (December 2011)

11-07 A Strategic Assessment of the Recent Politics and Diplomacy in Southeast Asia: With Special References to Thailand, Vietnam, Indonesia, and Philippines (December 2011)

11-08 Strategies for Development in the Mekong Region: Thailand, Cambodia, Laos (December 2011)

11-09 Understanding the Islamic Economy in Southeast Asia: Focused on Malaysia and Indonesia (December 2011)

11-10 Devising Korea' s Development Cooperation Strategies for Myanmar' s Socio-economic Development (December 2011)

11-11 Myanmar' s Development Potential: A Socio-cultural and Political Analysis (December 2011)

11-12 Post-Soviet 20 years, the Future of Central Asia: a Study on the possibility of Integration and factors toward Disintegration (December 2011)

11-13 Korea and Central Asia: Measures for the Promotion of Human Capital Exchange (December 2011)

11-14 The Characteristics of Foreign Investment in Central Asia and its Implications (December 2011)

11-15 Development Situation of Mineral Resources in Mongolia and Investment Expanding Ways of Korea (December 2011)

11-16 Collected Papers I
Studies in Comprehensive Regional Strategies India (December 2011)

11-17 Collected Papers II
Studies in Comprehensive Regional Strategies South-East Asia 1 (December 2011)

11-18 Collected Papers III
Studies in Comprehensive Regional Strategies South-East Asia 2 (December 2011)

11-19 Collected Papers IV
Studies in Comprehensive Regional Strategies Central Asia 1 (December 2011)

11-20 Collected Papers V

Studies in Comprehensive Regional Strategies Central Asia 2 (December 2011)

11-21 Collected Papers VI
Studies in Comprehensive Regional Strategies Mongolia, Turkey (December 2011)

■ Trade and Investment Study Series (in Korean)

11-01 Analyses on Changes in Competitiveness of Korean Product Under Effective FTAs (December 2011)

■ Policy References I (in Korean/English)

11-01 A Study on Japan's Expanding Strategy into Asia's Emerging Markets (May 2011)

11-02 A Study on the Growth of Photovoltaic Industry in Jiangsu Province, China (June 2011)

11-03 A Case Study on TAA Programs for Communities of the EU, Canada and the United States: Focused on Policy Implications (September 2011)

11-04 Current Status of the LED Industry in the Jing-Jin-Ji Region of China and Its Implications (September 2011)

ODA Policy Report 11-01

11-05 Experiment Methodologies for Measuring the Effectiveness of ODA Projects (October 2011)

ODA Policy Report 11-02

11-06 Trends in Korean Public Opinion about Foreign Aid (December 2011)

ODA Policy Report 11-03

11-07 Financing for Development: Progress and Policy Implications for Korea (December 2011)

ODA Policy Report 11-04

11-08 Green Climate Fund Design: Discussion on Monitoring and Evaulation (December 2011)

ODA Policy Report 11-05

11-09 Approaches, Donor Practices and Implications for South Korea (December 2011)

ODA Policy Analyses 11-01

11-10 G20 Development Agenda and Its implication for Korea' s ODA Policy (December 2011)

ODA Policy Analyses 11-02

11-11 Major Issues and Policy Implications of Aid for Trade (December 2011)

11-12 The Role of the Trilateral Cooperation Secretariat in Stimulating Economic Cooperation among China, Japan and Korea (November 2011)

ODA Policy Analyses 11-03

11-13 A Study on the Aid for Trade Policy Frameworks of Major Donor Countries and Korea' s Alternative (December 2011)

ODA Policy Analyses 11-04

11-14 Future Directions for Public-Private Partnership in ODA: Taking Corporate Philanthropy Abroad into Account (December 2011)

11-16 Comparative Study of SEZs in Central Asia and its Implications (December 2011)

11-17 Comparative Study on Development Cooperation of China, Japan and Korea vis-à-vis Cambodia (December 2011)

11-18 A Case Study on the Korean Small and Medium-sized Manufacturers in Jiangsu Province, China (December 2011)

11-19 An Analysis of Environment Provisions in Free Trade Agreements and Its Policy Implications (December 2011)

11-20 North Korea's International Economic Relations, 2001-2010 (December 2011)

11-21 Trade Poilcies for SMEs in U.S. and Implications for Korea (December 2011)

11-22 China's Outward Foreign Direct Investment: State of Play and Implications (December 2011)

11-23 The Analysis on the Strategic Protection of China's Rare Earth Resources and Its Implications (December 2011)

11-24 Analysis on Entry into Domestic Market of Export Processing Enterprises in Guangdong Province, China (December 2011)

11-25 An Analysis on the Investment Environment of

Shandong Province, China: With focus on Rizhao, Weifang, Dongying, and Binzhou (December 2011)

11-26 Study on the Possibility of Moving Production Base to Central China (December 2011)

Studies in Comprehensive Regional Strategies 11-01

11-27 20 Years of Economic Reforms in India: Evaluation and Prospects (December 2011)

Studies in Comprehensive Regional Strategies 11-02

11-29 The Images of Korea and India as Viewed by the Other (December 2011)

Studies in Comprehensive Regional Strategies 11-03

11-30 Current Status of Indian Green Energy Industry and Cooperation between Korea and India (December 2011)

Studies in Comprehensive Regional Strategies 11-04

11-31 Korea-India Cooperation and Exchange in the Financial Sector: Banking, Securities, and Insurance Industries (December 2011)

Studies in Comprehensive Regional Strategies 11-05

11-32 ASEAN's Decision Making Structure and Behavior (December 2011)

Studies in Comprehensive Regional Strategies 11-06

11-33 A Strategic Assessment of the Recent Politics and Diplomacy in Southeast Asia: With Special References to Thailand, Vietnam, Indonesia, and Philippines (December 2011)

Studies in Comprehensive Regional Strategies 11-07

11-34 Strategies for Development in the Mekong Region: Thailand, Cambodia, Laos (December 2011)

Studies in Comprehensive Regional Strategies 11-08

11-35 Understanding the Islamic Economy in Southeast Asia: Focused on Malaysia and Indonesia (December 2011)

Studies in Comprehensive Regional Strategies 11-09

11-36 Devising Korea's Development Cooperation Strategies for Myanmar's Socio-economic Development (December 2011)

Studies in Comprehensive Regional Strategies 11-10

11-37 Myanmar's Development Potential: A Socio-cultural and Political Analysis (December 2011)

Studies in Comprehensive Regional Strategies 11-11

11-38 Post-Soviet 20 years, the Future of Central Asia: a Study on the possibility of Integration and factors toward Disintegration (December 2011)

Studies in Comprehensive Regional Strategies 11-12

11-39 Korea and Central Asia: Measures for the Promotion of Human Capital Exchange (December 2011)

Studies in Comprehensive Regional Strategies 11-13

11-40 The Characteristics of Foreign Investment in Central Asia and its Implications (December 2011)

Studies in Comprehensive Regional Strategies 11-14

11-41 Development Situation of Mineral Resources in Mongolia and Investment Expanding Ways of Korea (December 2011)

Studies in Comprehensive Regional Strategies 11-15

11-42 Collected Papers I
India (December 2011)

Studies in Comprehensive Regional Strategies 11-16

11-43 Collected Papers II
South-East Asia 1 (December 2011)

Studies in Comprehensive Regional Strategies 11-17

11-44 Collected Papers III
South-East Asia 2 (December 2011)

Studies in Comprehensive Regional Strategies 11-18

11-45 Collected Papers IV
Central Asia 1 (December 2011)

Studies in Comprehensive Regional Strategies 11-19

11-46 Collected Papers V
Central Asia 2 (December 2011)

Studies in Comprehensive Regional Strategies 11-20

11-47 Collected Papers VI
Mongolia, Turkey (December 2011)

11-48 Brazil' s Power Diplomacy and Implications for Korean-Brazilian Relations (December 2011)

11-49 Technology Map, and Technological Cooperation between Korea and Latin America (December 2011)

11-50 Political Dynamics in and around the Middle East in

the aftermath of Arab Spring 2011 (December 2011)

11-51 The Survey of New Discovery, Analysis and Interpretation of Ancient Manuscripts and Literary Materials on Korean Studies in the Middle East (December 2011)

11-52 A Study on Current Status and Improvement Strategy for Manpower Utilization of Korean and Indian Corporations (December 2011)

11-53 The Collection System of Organic Wastes for Resource and Energy Recovery in Guatemala (December 2011)

11-54 Basic Study on Ways to Promote Fishery-related Cooperation with the Middle East and North Africa: Focusing on Algeria, Tunisia and Libya (December 2011)

11-55 A Comparative Study on the Comprehensive Benefits of Transit-Oriented Development(TOD) in Asian Mega Cities (December 2011)

11-56 Corporate Social Responsiblity of the Korean Companies in Latin America: Current Practices and Tasks Ahead (December 2011)

11-57 A Survey of Latin American Immigrants in Korea (December 2011)

11-58 A Study on the Legal System for Resource Development in Venezuela, Bolivia, and Ecuador (December 2011)

11-59 Demographic Transition and Its Consequences in Latin America (December 2011)

11-60 Central Goverment and Local Goverment in Brazil (December 2011)

11-61 A Study on Korean Strategies Toward Venezuela's Oil Sand (December 2011)

11-62 Investment Environment Trend and Countermeasures after the Democratic Revolution in Middle East and North Africa (December 2011)

11-63 Cooperations among Republic of Korea and Countries in Middle East and North Africa in a Renewable Energy Industry (December 2011)

11-64 Islamic Finance: Theory and Practice (December 2011)

11-65 Basic Study on Various Conflicts among the Tribes in North Africa: Focusing on the Berberian in Magreb (December 2011)

11-66 A Study on the Political Power Structure of the Middle Eastern Countries (December 2011)

■ Conference Proceedings (in Korean/in English)

11-01 Financing for Regional Economic Integration for Northeast Asia II (April 2011)

11-02 2010 CRES Visiting Scholar's Paper Series (May 2011)

11-03 Korea-China Economic Cooperation with the Rising of Central China (September 2011, in Korean)

11-04 The Transformation of the Mode of Economic Development and Regional Economic Trends in China (October 2011, in Korean)

11-05 Financing for Regional Economic Integration for Northeast Asia III: A Multilateral Financial Institution for Northeast Asia (December 2011)

■ Working Papers

11-01 Empirical Tests of Comparative Advantage: Factor Proportions, Technology, and Geography (December 2011)

11-02 Trade Liberalization, Intra-Industry Reallocation of Labor and Trade Adjustment Assistance (December 2011)

11-03 Determinants of Domestic Public Debt Crisis (December 2011)

11-04 Indirect Subsidization under WTO Disciplines: Financial Contribution to One Entity, Benefit to Another (December 2011)

11-05 Can Capital Account Liberalization Lessen Capital Volatility in a Country with 'Original Sin'? (December 2011)

11-06 Regional Difference and Counterfactual Decomposition of Pro-Poor Growth: An Application to Rural Ethiopia (December 2011)

11-07 A Quantitative Assessment of Credit Guarantee

Scheme in Asian Bond Markets (December 2011)

11-08 Can English Proficiency Boost International Trade in Services? (December 2011)

11-09 Strategic Trade Policy with Border Carbon Adjustments (December 2011)

11-10 Real Convergence and European Integration: What Factors Make the Difference in Growth at Regional Level? (December 2011)

11-11 Measuring Arbitrage Costs from Relative Prices: Implications for the PPP Puzzle (December 2011)

11-12 Are Asian Business Cycles Different? (December 2011)

KIEP

KIEP is on-line. Access http://www.kiep.go.kr for details of our latest publications.

KOREA INSTITUTE FOR INTERNATIONAL ECONOMIC POLICY

ORDER FORM

- Fax number: 822-3460-1144
- Address:

  Publication Section, Department of Information & Library Services

  Korea Institute For International Economic Policy

  246 Yangjaedaero, Seocho-Gu, Seoul 137-747,

  Korea
- E-mail: publications@kiep.kr
- Please call: 822-3460-1142 if you have any questions.

ALL ORDERS MUST BE PREPAID

Date of Order: _____

Name: Mr / Ms _____

Department/Institution: _____

Street Address: _____ City: _____

State / Post Code: _____ Country: _____

Telephone: _____ Fax: _____

E-mail: _____

Quantity	Title/Author/Series No.	ISBN	Price

· Total Cost of book(s) is US$ _____.

· Cos t of postage is US$ _____.

* Postage charge per copy is US$ 5 within Asia. For all other countries, the postage charge per copy is US$ 9.
All orders will be shipped by airmail.

Payment

☐ Check (payable to KIEP) ☐ International Money Order

☐ Visa Card ☐ Master Card

· Card Number _____

· Expiry date _____

· Signature _____

Standing Order for Residents Outside Korea

Type of Membership (One-Year)	Annual Fee*	
	Institutions	Individuals
All publications (60-70 titles, including periodicals, annually)	US$ 500	US$ 250

** Airmail charges are included.*

** Subject to change without prior notice*

KIEP

246 Yangjaedaero, Seocho-Gu, Seoul 137-747 Tel: (822) 3460-1080 Fax: (822) 3460-1144

Call for Papers for the

Journal of East Asian Economic Integration

With great pleasure, the *Journal of East Asian Economic Integration* is now welcoming submissions

AIMS and SCOPE

The *Journal of East Asian Economic Integration* is an economic journal, for the promotion and the advancement of interdisciplinary research on international economics. Published as a quarterly by the Korea Institute for International Economic Policy (KIEP), a Korean government-funded economic think-tank, the journal is global in perspective and covers both theory and empirical research.

TOPICS COVERED

The *Journal of East Asian Economic Integration* brings together articles from many different realms of economics at both regional and global levels. Trade, investment, finance, and regional studies, in which relevant to East Asian Economic Integration, are a major focus. Specific areas of interest include, but are not limited to:

- Trade Investment Issues • Economic Integration
- APEC · ASEAN · ASEM • International Finance
- Liberalization of Financial Services and Capital
- International Cooperation for Korean Unification

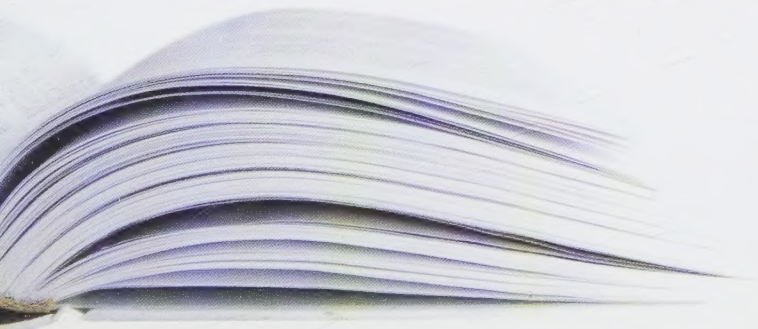
NOTES FOR CONTRIBUTORS

SUBMISSION GUIDELINE :
Refer to our website http://www.kiep.go.kr/eng. Click "Call for papers for the JEAI" at the bottom of the page.

SUBMISSION DEADLINE :
The journal is published every March, June, September and December of each year and submissions are accepted for review on an ongoing basis (no specific deadline).

AWARD FOR JEAI

The *Journal of East Asian Economic Integration* Award is given annually to articles that have made exemplary contributions to advance the public as well as academic understanding of international economics. Every article published in the journal is given a contribution award of KRW 2,500,000; and annual nominations for the outstanding and noteworthy articles include KRW 5,000,000 prize and a detailed one-to two-page nomination statement describing how the selected papers have contributed to the knowledge of international economics.



KIEP Korea Institute for International Economic Policy

KIEP Korea Institute for International Economic Policy

246 Yangjaedaero, Seocho-Gu, Seoul 137-747, Korea
Tel: (822) 3460-1251 Fax: (822) 3460-1122
URL: http://www.kiep.go.kr

94320
9 788932 230597
ISBN 978-89-322-3059-7
978-89-322-3020-7 (SET)
Price USD 7

06-DVL-260